Report to the General Assembly: Summary of Annual Reports Filed by Electric Utilities Required by PUA § 16-130 of the Electric Service Customer Choice and Rate Relief Law of 1997

Illinois Commerce Commission
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<u>About This Report</u>

Public Act 90-561 (P.A. 90-561), effective December 16, 1997, (the 1997 Revisions) modified the Public Utilities Act (PUA, or the Act) by adding new sections and revising others. The new sections are Article XVI (The Electric Service Customer Choice and Rate Relief Law of 1997) and Article XVIII (The Electric Utility Transitional Funding Law). Other sections of the law were modified, including PUA §§ 5-104, 7-204 and 9-220. Public Act 91-50, effective June 30, 1999, added to and amended the 1997 changes.

Illinois electric utilities are required to annually provide information to the Illinois Commerce Commission (ICC) to comply with the eleven requirements set forth in PUA § 16-130 of the Public Utilities Act. PUA § 16-130 provides in part:

> **§ 16-130. Annual Reports. The General Assembly finds that it is necessary to have reliable and accurate information regarding the transition to a competitive electric industry. In addition to the annual report requirements pursuant to Section 5-109 of this Act, each electric utility shall file with the Commission a report on the following [eleven] topics…**
>
> **§ 16-130(b) The information required…shall be filed by each electric utility on or before March 1 of each year 1999 through 2007 or through such additional years as the electric utility is collecting transition charges…**
>
> **§ 16-130(c) …the Commission shall submit a report to the General Assembly which summarizes the information provided by each electric utility under this Section;**

Part 1 of this report provides an overview of the electric utilities' financial condition and activities since December 16, 1997, the effective date of the new law.

Part 2 of this report summarizes Illinois electric utilities' responses to the eleven requirements set forth in PUA § 16-130.

Introduction/Background

In recent years the electric industry has been undergoing significant change. Illinois, California, Ohio, Pennsylvania, and a number of other States have implemented electric restructuring initiatives. Illinois' Electric Service Customer Choice and Rate Relief Law of 1997, (P.A. 90-561) became effective December 16, 1997. Information provided throughout this report suggests that the Illinois electric utilities have benefited under the 1997 Revisions and that their financial health has generally improved since its effective date.

Since December 1997, all but one of the Illinois electric utilities (Mt. Carmel) have either merged with or been acquired by other companies. All of the Illinois investor owned electric utilities, except for CILCO, have also either sold their generating facilities to unrelated third parties or they have transferred their generating facilities to an unregulated affiliate. The 1997 Revisions, as contrasted with the California restructuring law, did not prohibit the utilities from entering into contracts to hedge their supply risks. As a result, all of the utilities entered into long term contracts (generally through the end of 2004 when the rate freeze ends) to purchase the output of their former generating plants at a fixed price. The electric utilities have also been able to significantly reduce employee levels, improve operating efficiencies and reduce operating costs.

Mergers and acquisitions
The 1997 Revisions eliminated the ICC's regulatory oversight of reorganizations (mergers) involving Illinois electric utilities, except for a merger involving two or more Illinois public utilities. All of the Illinois electric utilities, except for Mt. Carmel and South Beloit Water Gas & Electric, have completed mergers since passage of the 1997 Revisions. In the instances where the proposed merger involved a combination electric and gas company, the ICC retained approval authority over only the natural gas portion of the transaction.

- Unicom, ComEd's parent company, and PECO Energy Company, a Pennsylvania-based utility, merged on October 20, 2000. A new holding company named Exelon was created, and will be headquartered in Chicago. ComEd and PECO became subsidiaries of Exelon.

- Illinova (Illinois Power's parent company) and Dynegy, a Texas-based company, completed their merger on February 1, 2000. Illinois Power became a subsidiary of Dynegy.

- MidAmerican Energy Holdings, the parent company of MidAmerican Energy, agreed to be acquired by a group of private investors that included Berkshire Hathaway in October 1999. The acquisition was completed on March 14, 2000, and the parent company is headquartered in Nebraska.

- CILCORP, the parent company of Central Illinois Light Company (CILCO), was acquired by the AES Corporation, a Virginia-based company, on October 18, 1999.

- CIPSCO, the parent company of Central Illinois Public Service Company, and Union Electric merged on December 31, 1997. As a result of the merger, Central Illinois Public Service Company and Union Electric became subsidiaries of Ameren, a registered public utility holding company headquartered in Missouri.

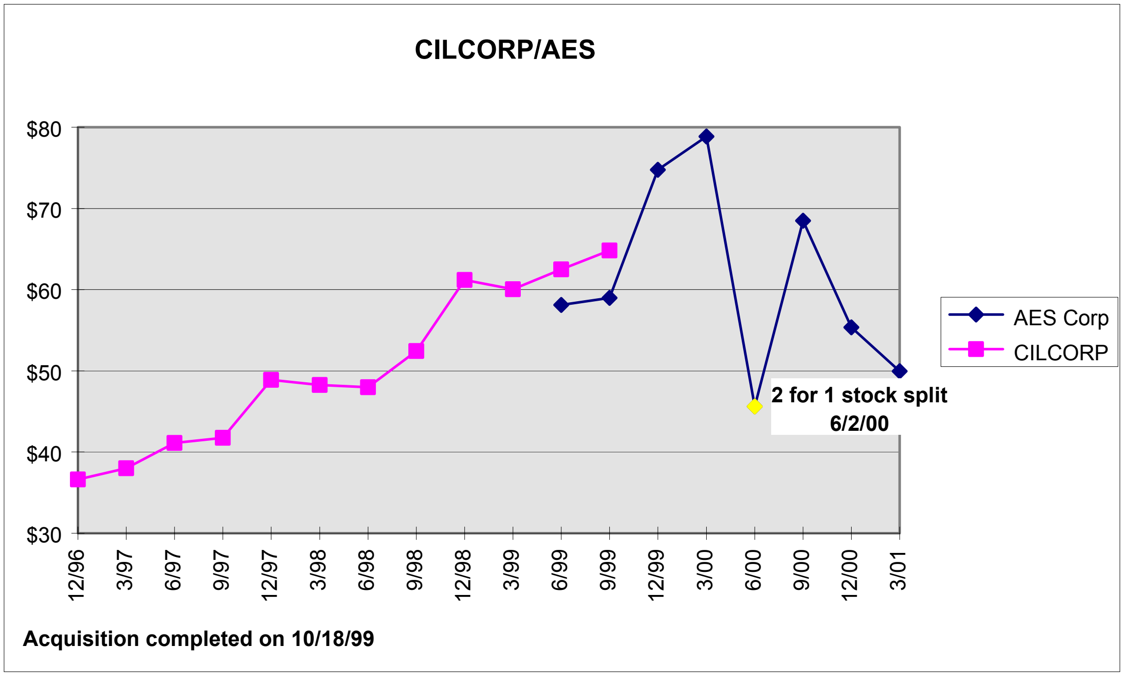
- Wisconsin Power and Light, the parent of South Beloit Water Gas and Electric (South Beloit), Interstate Power Company and IES Industries completed their merger on April 21, 1998. As a result of the merger, Wisconsin Power and Light, Interstate Power Company and IES became subsidiaries of Interstate Energy Corporation (subsequently renamed Alliant Energy), a registered public utility holding company headquartered in Wisconsin. In 2000, Alliant announced its plan to merge two of its operating utility subsidiaries, Interstate Power and IES, into one company.

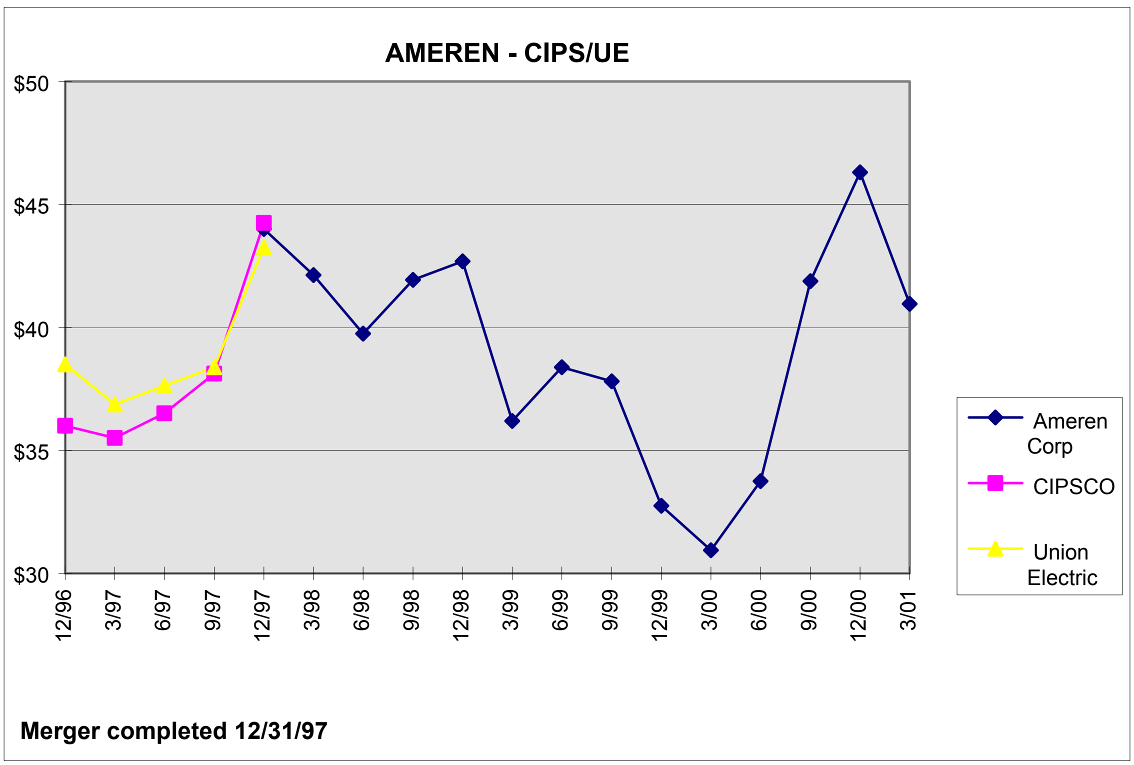
Stock Prices

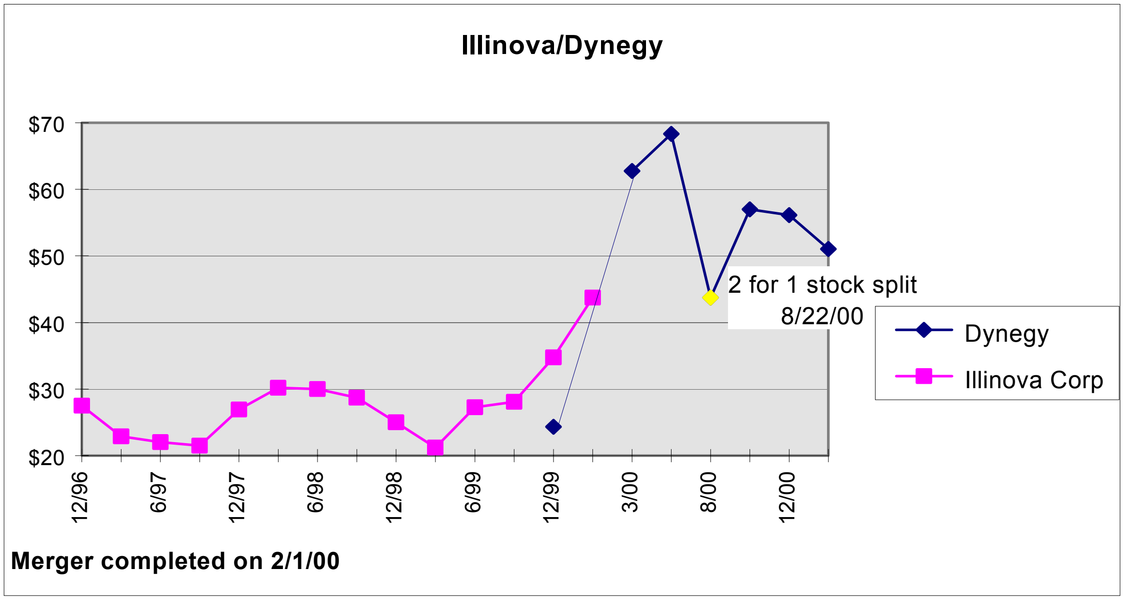
The following charts present quarterly stock prices for selected Illinois electric utilities and/or their parent companies. The impact of the 1997 Revisions on stock values is difficult to evaluate due to recent mergers and acquisitions and the fact that there is no apparent trend in the charts. However, generally shareholder value has increased since the 1997 Revisions became effective. The companies whose stock prices rose are predominantly unregulated energy companies.

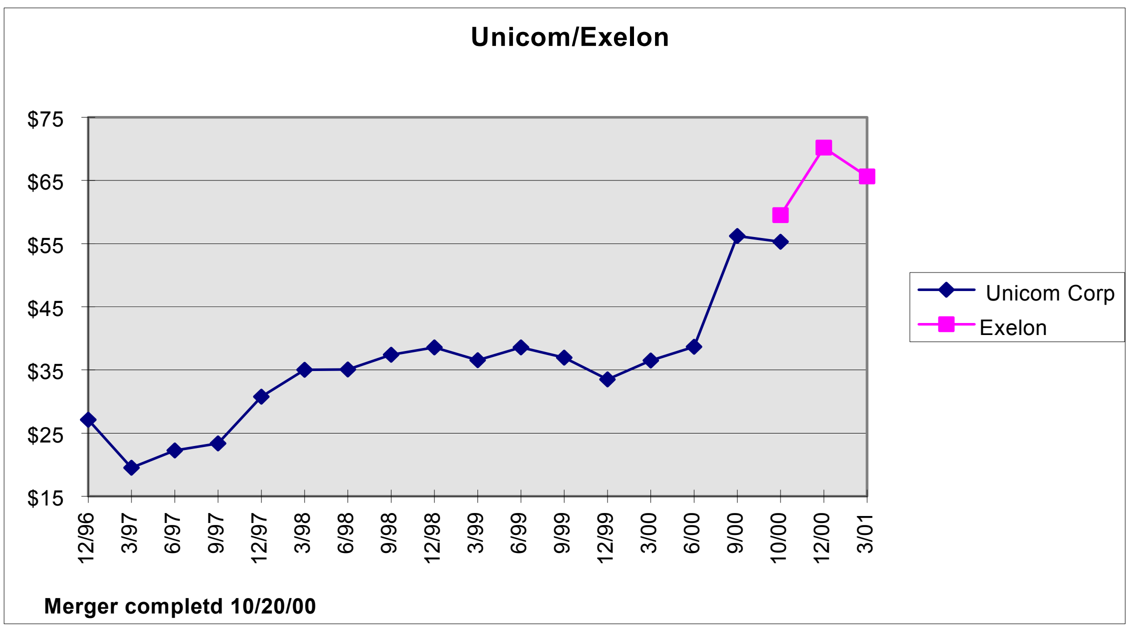
Unicom's common stock was trading at $30.75 on December 31, 1997. When Unicom merged with PECO on October 20, 2000, each share of Unicom's common stock was exchanged for 0.875 shares of Exelon common stock plus $3.00 in cash. On June 1, 2001, Exelon's common stock closed at $67.29 more than twice the value of a share of Unicom's common stock in December 1997.

Illinova's common stock closed at about $27.00 on December 31, 1997. When Dynegy merged with Illinova on February 1, 2000, each share of Illinova's common stock was exchanged for one share of Dynegy's common stock. At the time of the merger, Dynegy's common stock was trading at around $31.00 a share. On August 22, 2000, Dynegy's common stock split two for one. The stock closed at $47.98 on June 1, 2001. Thus the value of a share of Illinova's (now Dynegy's) common stock has increased by approximately three and a half times from what it was worth in December 1997.


CILCORP/AES
$80
$70
$60
$50
$40
$30
12/96
3/97
6/97
9/97
12/97
3/98
6/98
9/98
12/98
3/99
6/99
9/99
12/99
3/00
6/00
9/00
12/00
3/01
AES Corp
CILCORP
2 for 1 stock split
6/2/00
Acquisition completed on 10/18/99


AMEREN - CIPS/UE
$50
$45
$40
$35
$30
12/96
3/97
6/97
9/97
12/97
3/98
6/98
9/98
12/98
3/99
6/99
9/99
12/99
3/00
6/00
9/00
12/00
3/01
Ameren Corp
CIPSCO
Union Electric
Merger completed 12/31/97


Illinova/Dynegy
$70
$60
$50
$40
$30
$20
12/96
6/97
12/97
6/98
12/98
6/99
12/99
3/00
8/00
12/00
2 for 1 stock split
8/22/00
Dynegy
Illinova Corp
Merger completed on 2/1/00


Unicom/Exelon
$75
$65
$55
$45
$35
$25
$15
12/96
3/97
6/97
9/97
12/97
3/98
6/98
9/98
12/98
3/99
6/99
9/99
12/99
3/00
6/00
9/00
10/00
12/00
3/01
Unicom Corp
Exelon
Merger completd 10/20/00

Generating plant transfers and sales

The 1997 Revisions substantially reduced the ICC's regulatory review of generating plant sales and transfers. Since that time, ComEd, Illinois Power and AmerenCIPS have sold, sold or transferred all of their generating assets to third parties or non-regulated affiliate companies, thereby essentially removing these assets from Commission oversight. CILCO is the only Illinois electric utility that has not divested its Illinois generating facilities.

- ComEd sold its fossil generating plants beginning with State Line (1997) and Kincaid (1998) and concluding with the sale of all other fossil generating assets in 1999. The 1999 sale of generating assets totaled $4.8 billion, and, after taking into account the book value of $1.1 billion and additional costs associated with the sale, produced a pretax gain of $2.8 billion. ComEd also transferred its nuclear generating plants to Exelon Generation, an unregulated affiliate, effective January 1, 2001.

- Illinois Power sold the Clinton Nuclear Power Station (1999) to AmerGen for $12.4 million. In 1998, prior to the write-down of Clinton to a fair market value of zero, the plant's net book value was $2.6 billion. Also in 1999, Illinois Power transferred its fossil generating plants to an unregulated affiliate, Illinova Power Marketing, which was subsequently renamed Dynegy Midwest Generation.

- AmerenCIPS transferred all of its generating plants to an unregulated affiliate, AmerenEnergy Generating Company, on May 1, 2000.

- The terms of each of the above listed plant sales and asset transfers include purchase power agreements which require those utilities that are divesting their facilities to purchase all or part of the output of the generating plants for a specified period of time (generally through 2004). These agreements are designed to ensure that the incumbent utilities retain a sufficient supply of generation to meet the utilities' obligation to serve their bundled service customers during the "Mandatory Transition Period."

Fuel adjustment clause elimination

The Uniform Fuel Adjustment Clause (UFAC or clause) operates to pass through to customers both the prudent actual cost of purchased power and as well as fuel that is purchased to generate electricity. Historically, as the price for purchased power and fuel rose or fell, the charge to customers followed. The 1997 Revisions gave utilities the option of eliminating the fuel adjustment clause from their rates. When some companies elected to eliminate the fuel clause, a fixed price for purchased power and fuel was included in customers' rates and resulted in the following scenarios: if the company incurs actual costs that are lower than the fixed level charged customers, the company benefits; but if actual costs are higher, the benefit accrues to the customer.

- On December 16, 1997, the effective date of the 1997 Revisions, ComEd opted to eliminate its UFAC retroactive to January 1, 1997. The action did not require the company to change the base rates the company charged its customers, but the elimination of ComEd's UFAC did require the company to refund $43 million to customers representing net charges for 1997.

- Illinois Power opted to eliminate its UFAC effective March 7, 1998, retroactive to January 1, 1997. The 1997 Revisions did not require Illinois Power to refund net charges for 1997, but did require Illinois Power to lower its base rates.

- AmerenCIPS and AmerenUE opted to eliminate their fuel adjustment clauses effective April 1, 1998, and May 5, 1998, respectively. Both companies placed a fuel component charge in base rates calculated on an average of prior periods.

- On July 31, 2000, CILCO filed a petition to eliminate its fuel adjustment clause pursuant to § 9-220(d). The company requested that its forecasted fuel and purchased power costs for the 12 month period ended August 31, 2001, be rolled into base rates. On March 14, 2001, the Commission dismissed CILCO's petition due to CILCO's failure to provide accurate and complete information regarding its forecasted fuel costs.[1] The ICC anticipates that CILCO will file a new petition to eliminate its fuel adjustment during 2001.

- MidAmerican Energy, Mt. Carmel, Interstate Power and South Beloit Water Gas & Electric have not opted to eliminate their UFAC.

Discontinuance of regulatory accounting practices for the generation portion of the electric utility business

Recovery of the original cost of generation assets can no longer be assured because the 1997 Revisions deregulated generation services. As a result, the revenue for generation services will be based on market prices rather than regulated rates. Consequently, ComEd, Illinois Power, CILCO, AmerenCIPS, MidAmerican Energy and AmerenUE (the latter two for their Illinois generation only) adopted changes to their accounting practices that have resulted in a write-off of all or a portion of each utility's generation assets.

Securitization

Public Act 90-561 created Article XVIII (The Electric Utility Transitional Funding Law) within the PUA. Article XVIII authorizes utilities to issue securitized debt securities known as transitional funding instruments (TFIs). TFIs bear lower interest rates than traditional debt because of a complex legal structure that reduces the risk of TFIs. Specifically, TFI investors may impose a non-avoidable charge on a utility's customers that is sufficient to meet the interest and principal repayment requirements on the TFI, regardless of whether the utility issuing the TFIs becomes bankrupt. This charge, which is known as the instrument funding charge (IFC), appears on the bills of the utility's customers. The utility is required to provide its

[1] Pages 6-8 of the Commission's order in Docket 00-0579 entered on March 14, 2001.

customers a credit that exactly offsets the TFI charge, thereby preventing the issuance of TFIs from increasing customer bills.

ComEd and Illinois Power are the only two utilities that have sought and received permission from the ICC to issue transitional funding instruments. Also see Table 4.

- In July 1998, the ICC approved the issuance by ComEd of $6.8 billion in TFIs. In December 1998, ComEd issued one-half of the approved amount, or $3.4 billion, of Transitional Funding Trust Notes at an average interest rate of 5.57%, through trusts established as "Special Purpose Entities." The notes carry various maturity dates from March 2000 through December 2008.

- In December 1998, Illinois Power issued $864 million of Transitional Funding Trust Notes at an average interest rate of 5.41%, which represents 25% of Illinois Power's total capitalization at December 31, 1996. The notes carry various maturity dates from 2000 through 2008. Illinois Power used these funds to retire debt and equity securities.

Cost mitigation activities

Companies have taken advantage of the opportunities available during the mandatory transition period to lower operating costs. Actions taken during the transition period include:

- Rate freeze: the 1997 Revisions allow companies to maintain current rates even if the costs that previously supported those rates have been reduced.
- Mergers: the 1997 Revisions reduced or eliminated ICC regulatory review of certain types of reorganizations.
- Divestiture of generating facilities: the 1997 Revisions reduced ICC regulatory review of the sale or transfer of electric generating facilities.
- Reductions in employee levels: the companies have been able to reduce their employee levels through early retirement programs, layoffs and as a result of the mergers and the generating plant sales and transfers.
- Reductions in O & M costs: improvements in the performance of nuclear generating plants have reduced fuel, purchased power, and O&M costs.
- Securitization: companies are not required to pass along to customers any benefits derived from changes in companies' capital structures and lower capital costs due to securitization activities.

The 1997 Revisions also imposed certain requirements upon the electric utilities, including:

Mandatory residential rate reductions

PUA § 16-111(b) required each electric utility, except for the three smallest (those with less than 12,500 Illinois retail customers), to reduce rates charged to residential customers on August 1, 1998, and again on subsequent dates according to the provisions of the 1997 Revisions. From August 1, 1998, through December 31, 2000, it is estimated that residential customers of Illinois electric utilities have saved approximately $1,183 million as a result of these mandatory rate reductions. See Table 2.

Rate freeze

With certain exceptions, electric utilities' rates will not change during the Mandatory Transition Period (through January 1, 2005). Included among the exceptions that permit utilities to request relief from the mandatory rate freeze include impacts on rates resulting from (1) changing or eliminating the fuel adjustment clause, (2) establishing delivery service tariffs, (3) changes related to decommissioning, and (4) changes in environmental fees and municipal and other taxes.

Another exception to the rate freeze provision is found in PUA § 16-111(d), which allows utilities to request an increase in rates if their average return on equity as adjusted for items specified in the 1997 Revisions falls below a 2-year average of U.S. Treasury Bond yields. Such electric utility rate requests are subject to ICC review and approval. No utility has requested an increase in rates since the enactment of the 1997 Revisions.

Subject to the limitations established by the excess earnings cap in PUA § 16-111(e), the rate freeze will also enable utilities to keep the increased earnings they achieve through cost-cutting measures.

Delivery service tariffs and customer choice

Electric utilities are required to provide delivery services to retail customers in accordance with provisions established in the 1997 Revisions. In 1999, delivery service tariffs and related implementation plans were approved for all nine electric utilities in advance of October 1, 1999, which was the date on which certain larger customers, multi-location customers, and other customers (as chosen by lottery) were eligible to elect delivery service status. As of December 31, 2000, all non-residential customers were eligible for choice. Residential customers will become eligible for choice on May 1, 2002. AmerenCIPS and AmerenUE filed their residential delivery service tariffs in December 2000. The remaining seven electric utilities are expected to file their residential delivery service tariffs between June 1, and October 1, 2001. The Commission must approve the residential delivery service tariffs on or before April 30, 2002.

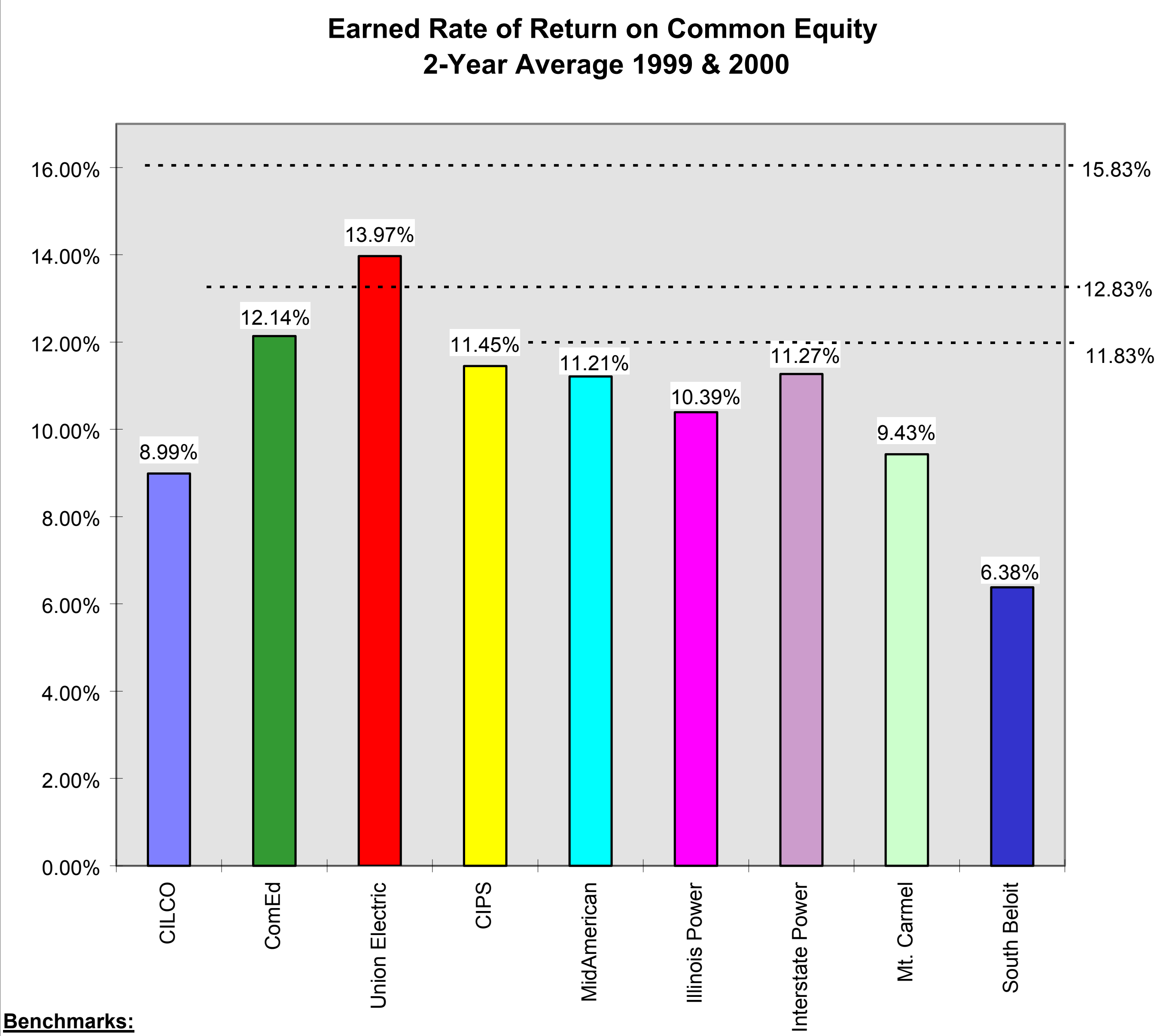
“Excess earnings” reporting

In addition to PUA § 16-130 reporting requirements, the 1997 Revisions require electric utilities to annually provide earnings information to determine if the utility has “excess earnings”. PUA § 16-111(e) requires electric utilities to report their two-year average return on common equity on or before March 31 of each year beginning in 2000 and continuing through 2005. The average return is compared to a benchmark based on 30-year U.S. Treasury bonds plus percentage points as specified in the 1997 Revisions. If the average return exceeds the benchmark, the utility is required to make refunds to customers.

In 1999, Senate Bill 24, among other things, increased the percentage points in the index formula by 2% for the years 2000 through 2004. Generally, the utilities, except for ComEd, are required to commit not to petition the Commission to extend the period for imposing transition charges for an additional period after December 31, 2006, as permitted by PUA § 16-108(f) to be eligible to use the additional 2% percentage points in the benchmark. CILCO was also required to accelerate choice for certain industrial customers. By raising the benchmark, this revision in the law permits utilities to earn more than originally allowed in the 1997 Revisions before an electric utility would be required to make refunds to customers. As of the date of this report, only AmerenUE has provided the commitment necessary to increase its excess earnings benchmark the additional 2 percentage points.

AmerenUE is the only utility that reported excess earnings, both for 1998-1999 and for 1999-2000. In April 2000, AmerenUE began refunding the 1998-1999 excess earnings of $2.3 million to its Illinois customers. AmerenUE began refunding the 1999-2000 excess earnings of $1.35 million in April 2001. If AmerenUE not had the option to increase their excess earnings benchmark by 2 percentage points as provided in SB 24, they would have been required to refund approximately $2.5 million in excess earnings for 1999-2000.

The graph on the following page shows the results of the 1999-2000 earnings reports. The ICC is currently reviewing the 1999-2000 earnings reports to verify the accuracy of the utilities’ numbers. Also see Table 3.

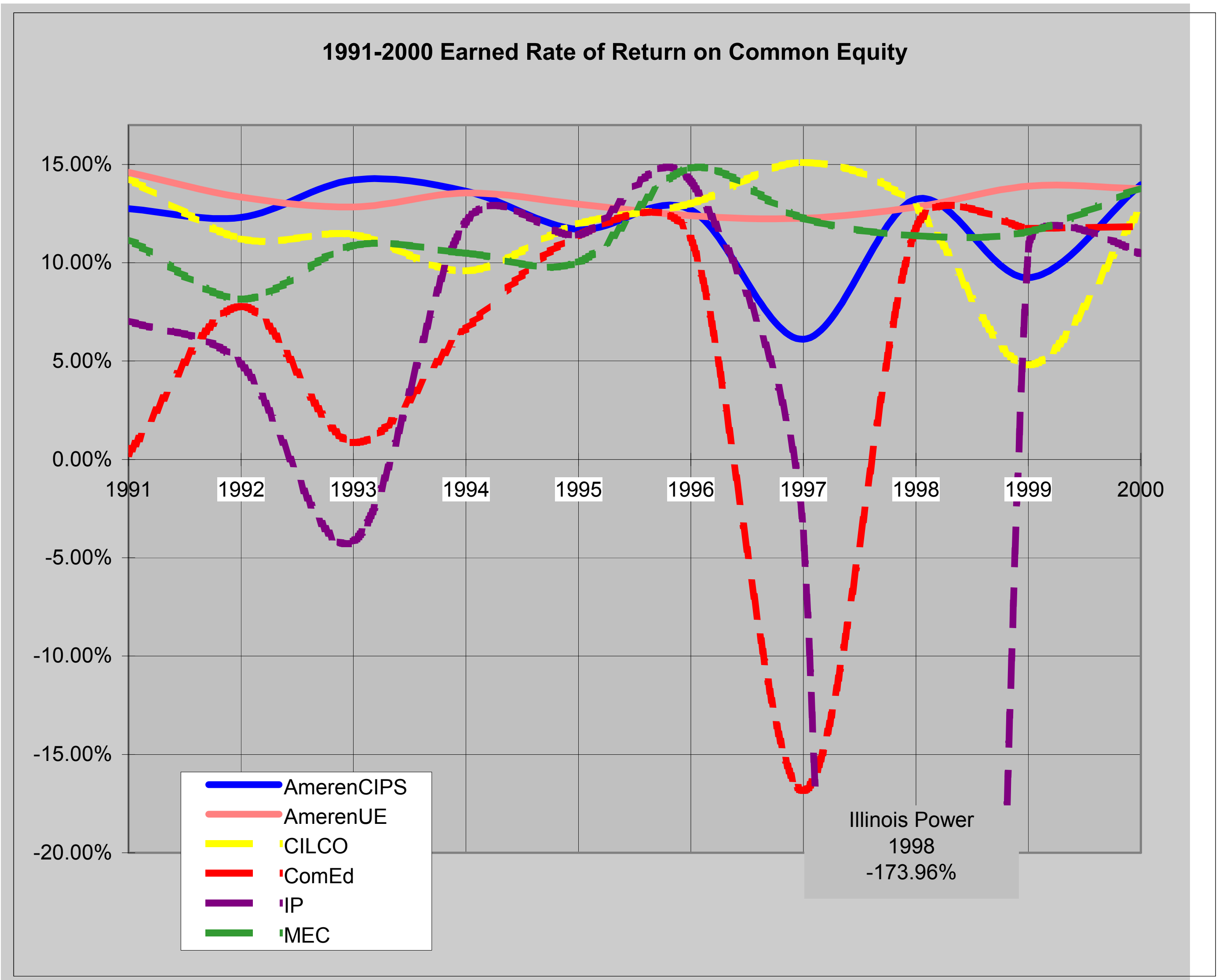


Benchmarks:

CILCO	**15.83%**
ComEd, CIPS, & UE	**12.83%**
All Others	**11.83%**

The following graph and table present single-year returns calculated using amounts reported to the ICC by the utilities.

Income amounts represents Total Company Net Income less Preferred Dividends. Equity amounts represent Total Company Stockholder's Equity less Preferred Portion. Sources: 1991-1994, Forms 21 ILCC, 1995-2000, FERC Forms No. 1



1991-2000 Net Income and Common Equity (in millions)											
$ Million		**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
AmerenCIPS	Income	$ 70	$ 68	$ 80	$ 78	$ 67	$ 74	$ 35	$ 76	$ 50	$74
	Equity	$ 551	$ 553	$ 565	$ 575	$ 570	$ 581	$ 573	$ 574	$ 554	$536
AmerenUE	Income	307	289	283	307	301	292	293	311	338	334
	Equity	2,106	2,164	2,206	2,269	2,319	2,355	2,387	2,424	2,434	2,468
CILCO	Income	40	31	34	29	39	42	50	41	16	45
	Equity	279	278	294	308	326	322	333	326	327	343
ComEd	Income	17	444	47	359	650	379	(819)	539	599	732
	Equity	5,738	5,708	5,422	5,401	5,706	6,043	4,866	4,961	5,179	5,740
Illinois Power	Income	105	70	(56)	177	169	223	(49)	(1,572)	94	121
	Equity	1,490	1,455	1,343	1,467	1,478	1,576	1,299	1,096	964	1,096
MidAmerican	Income	50	40	54	126	123	146	120	111	122	160
	Equity	445	496	499	1,202	1,224	987	986	973	1,058	1,110

Sources: 1995-2000 FERC Form No. 1; 1991-1994 ILCC Form 21.
Income amounts: Total Company Net Income From Table 6 [p. 42] less Preferred Stock Dividends Paid.

Stranded Costs

Stranded costs will arise if the value of utility generating assets diminishes as a result of a utility's obligation to sell the output of their generating facilities at market prices rather than at regulated prices. The term "stranded costs" is not included in the 1997 Revisions; however, the law does allow the incumbent electric utility to require customers who switch electric suppliers to pay a transition charge to compensate the utility for the revenue losses that are linked to stranded costs. It should be noted that customers who continue to take traditional bundled electric service from the incumbent electric utility do not pay transition charges, but effectively contribute to stranded cost recovery through the bundled price. It is clear that customer contributions to stranded cost recovery, both through the transition charge and as a component of bundled rates, constitute a significant impediment to opting for an alternative provider of generating services.

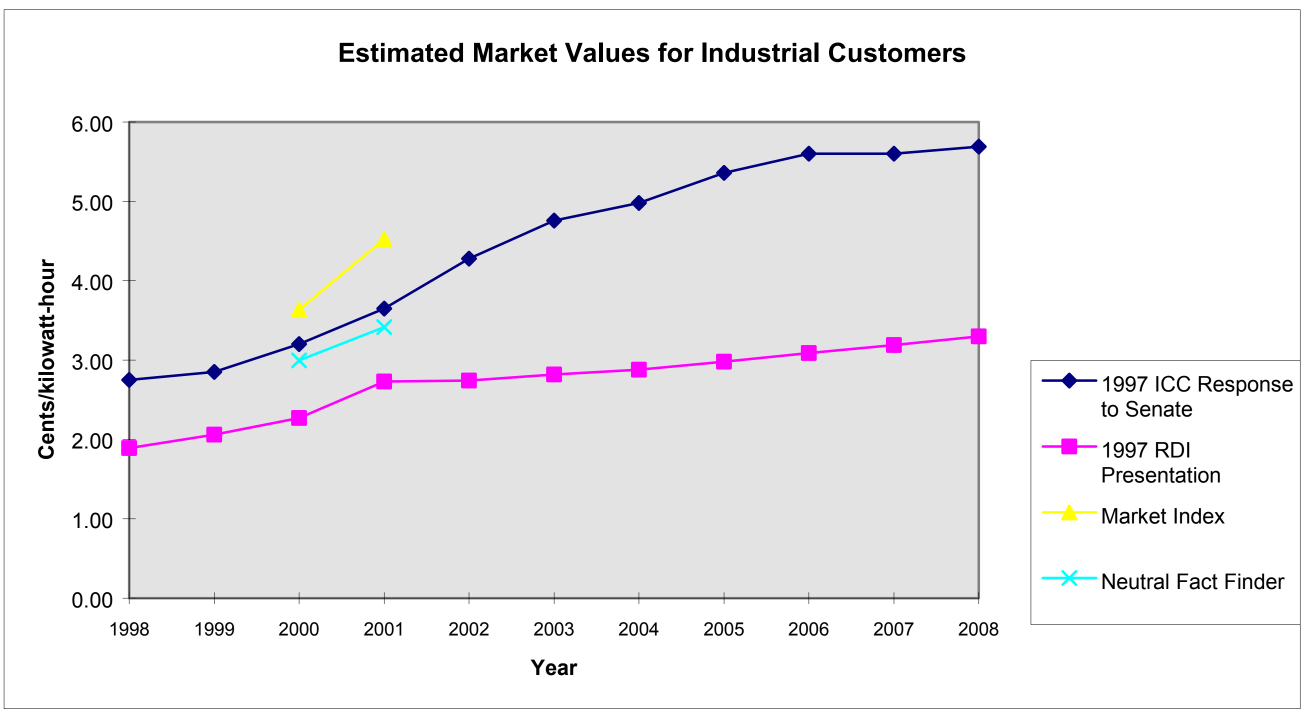
The ICC prepared a report[2] for the General Assembly in 1997 in which the Commission estimated ComEd's and IP's future stranded costs. The report defined stranded costs as the present value of the difference between a utility's total generation costs and the market price of generation. In general, the higher the assumed market generation prices, the lower the estimate of stranded costs (and vice versa).

[2] Stranded Cost Estimation Report to the President of the Illinois Senate, August 1997.

As future market prices are quite difficult to project, the 1997 report estimated stranded costs for two sets of market prices. One set of estimates was developed by the ICC Staff specificaly for the August 1997 report to the Illinois Senate President, based on a survey of market participants and other information available to the Staff. The second set of estimates were developed during the 1997 legislative review process by Resource Data International, Inc. (RDI). The ICC estimated that market prices would be about three cents per kilowatt hour (kWh) during 1998, rise to about five cents per kWh in 2003, and reach about six cents per kWh in 2008. In contrast, the RDI market value estimates were significantly lower than the ICC estimates, with estimated market prices in 1998 of about two cents per kWh rising to only about four cents per kWh in 2008. However, actual experience since these estimates were prepared in 1997 suggests that stranded costs are significantly less than originally predicted.

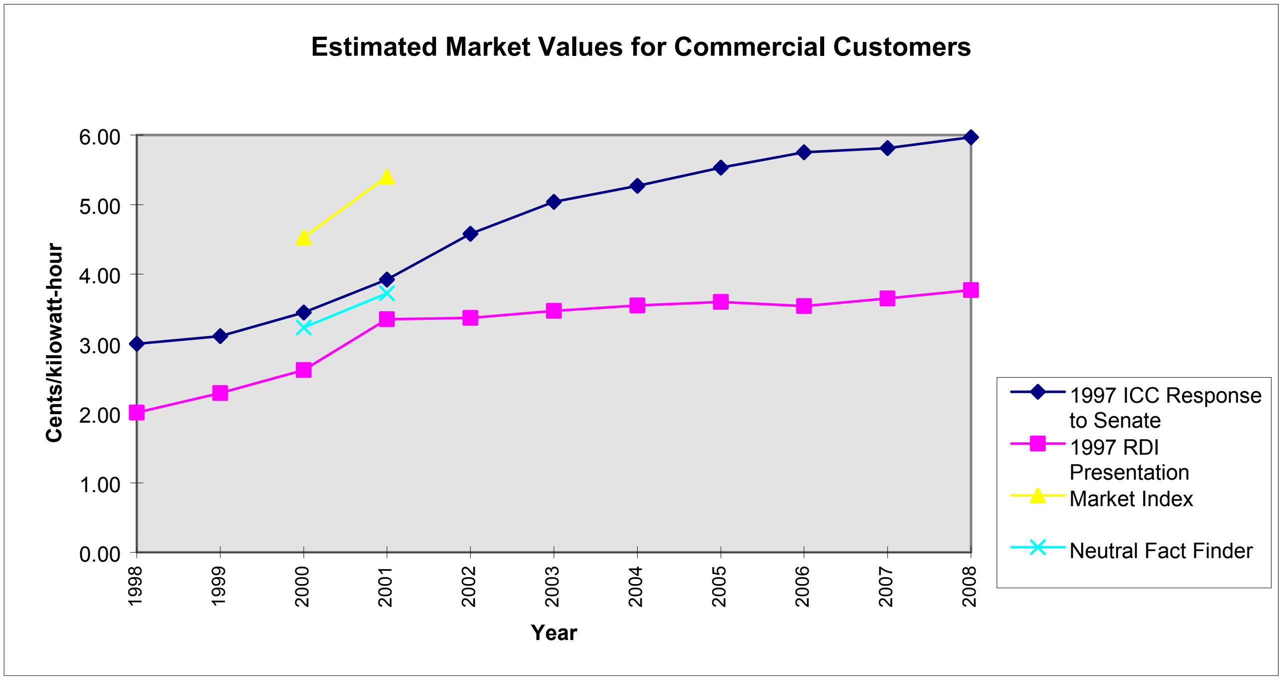
The 1999 Neutral Fact Finder calculated market prices of about 3.0 cents per kWh for 2000, while the 2000 Neutral Fact Finder calculated market prices of approximately 3.5 cents per kWh for 2001.[3] However, current market prices are higher than the market prices listed in the 2000 Neutral Fact Finder report. Earlier this year, ComEd filed information with the Commission indicating that market prices are in the range of about 4.5 to 5.5 cents per kWh.[4]

Using data from (a) Staff's Stranded Cost Estimation prepared for the Illinois Senate, (b) the RDI estimates, (c) ComEd's market index data from Docket No. 00-0259 ("Market Index" in the charts), and (d) the Neutral Fact Finders' market values, the following charts were developed.



[3] "1999 and 2000 Neutral Fact-Finder's Calculation of Market Values for Electric Power and Energy for the State of Illinois", page 16.

[4] ComEd's compliance tariff filing on April 23, 2001 in Docket No. 00-0259.



Estimated Market Values for Commercial Customers
Cents/kilowatt-hour
6.00
5.00
4.00
3.00
2.00
1.00
0.00
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Year
1997 ICC Response to Senate
1997 RDI Presentation
Market Index
Neutral Fact Finder

Part 1: Overview of Electric Utilities During the Transition Period

This section of the report identifies and analyzes activities that Illinois electric utilities have engaged in since the effective date of the 1997 Revisions and the impact of these activities upon the electricity market and upon the electric utilities' financial results and condition.

Changes in the Illinois and federal laws in conjunction with technological changes have had, and continue to have, broad impacts upon the fundamental structure and operation of the electric utility industry. The sale or transfer of generating plants and related assets to third parties or affiliates is an example of the type of change that is transforming the traditional view of the utility as vertically integrated company capable of the producing and the delivering electricity. Utilities offering service to customers outside of the utility's established service territory is another example of change resulting from the 1997 Revisions.

The 1997 Revisions established a transition or phase-in plan for implementing customer choice. On October 1, 1999, the first group of customers, approximately 64,000 non-residential customers, including many of the largest consumers of electricity in the State, became eligible for choice. As of December 31, 1999, only 4,700 customers (or 7.3% of those eligible) representing approximately 368,000 megawatt hours had opted for delivery services either by selecting an alternative supplier of electricity or by selecting service from the utility through the Power Purchase Option (PPO). All non-residential customers (approximately 500,000) were eligible for choice by December 31, 2000. As of that date, only 11,000 or 2.2% of the non-residential customers had elected to switch to delivery services. Residential customers will become eligible for choice on May 1, 2002.

ComEd

ComEd's operating revenue was $7,012 million for 2000, an increase of $219 million, or 3% from 1999. This increase was primarily due to a $467 million increase in wholesale sales that was partially offset by a $266 million reduction in sales to retail customers. Net income increased $109 million or 18% in 2000. Fuel and purchased power expense was $1,977 in 2000, an increase of $428 million, or 28% from 1999. The increase is primarily due to the sale of its fossil generating plants to Edison Mission Energy in December 1999. As part of the sale, ComEd entered into a purchased power agreement with Edison Mission Energy to purchase the output of the plants through the end of 2004. The transaction results in higher purchased power costs but lower fuel costs. ComEd's operating and maintenance expenses in 2000 were $2,076 million compared to $2,352 million in 1999. The decrease is primarily due to the sale of its fossil plants, shorter refueling outages, and fewer forced outages at its nuclear plants.

The significant items or activities related to ComEd's financial results for the years 1997 through 2000 included:

- **Mandatory residential rate reduction:** ComEd was required to reduce its residential rates by 15% on August 1, 1998. As a result of this rate reduction, ComEd's residential customers have saved approximately $955 million through December 31, 2000. ComEd is required to reduce residential rates an additional 5% on October 1, 2001.

- **Merger :** Unicom (ComEd's parent company) and PECO Energy Company, a Pennsylvania-based utility, completed their merger on October 20, 2000. Under the terms of the merger agreement, Unicom was required to repurchase $1 billion of its common stock prior to consummation of the merger. In January 2000, ComEd repurchased 26.3 million shares of its common stock from Unicom, resulting in an after tax gain of $113 million. In the first quarter of 2000, ComEd repurchased an additional 4 million shares of its common stock from Unicom. ComEd eliminated 214 positions as a result of the merger.

- **Transfer of nuclear generating plants:** ComEd transferred its nuclear generating plants to Exelon Generation, an unregulated affiliate, effective January 1, 2001. As part of the transfer, ComEd entered into a purchased power agreement to obtain all of its power supply from Exelon Generation through the end of 2004 with an option to purchase the output of the nuclear plants in 2005 and 2006. Exelon Generation will assume responsibility for decommissioning the plants.

- **Nuclear decommissioning:** In accordance with PUA § 8-508.1, ComEd collects decommissioning charges from customers to pay for the future decommissioning of nuclear stations. Current studies estimate the total cost to decommission ComEd's nuclear stations is $5.6 billion (in 2000 dollars). ComEd is in the process of transferring the decommissioning trust funds (approximately $2.6 billion) to Exelon Generation. ComEd will continue to collect $73 million annually in decommissioning charges from customers through the end of 2004. Collection of decommissioning charges from customers in 2005 and 2006 is linked to the amount of output ComEd takes from the plants in those years. ComEd will remit the decommissioning charges collected from customers (during 2001-2006) to Exelon Generation for deposit in the decommissioning trust funds.

- **Improved performance of nuclear generating units:** The improved performance of the nuclear generating units produced significant reductions in expenditures during 2000 and 1999, compared to earlier years. This improved performance (a) reduced the need to rely on alternative (and more expensive) sources of generation such as coal, oil and gas, and (b) also reduced the need to purchase power from other parties. The overall nuclear capacity factor for 2000 was 94.5%, compared to 89.4%, 66% and 49% for 1999, 1998 and 1997, respectively. Operations and maintenance expenses associated with the nuclear generating stations declined during the year due to shorter refueling periods and a decline in forced outages.

- **Sale of fossil generating stations:** The sales of State Line and Kincaid coal stations in December 1997 and February 1998, respectively, lowered operation and maintenance costs and also reduced ComEd's net generation in 1998. The 1999 sale of the remaining fossil generating assets totaled $4.8 billion, and, after taking into account the book value of $1.1 billion and additional costs associated with the sale, produced a pretax gain of $2.8 billion. This gain and the related reduction in depreciation and amortization expense combined to improve earnings for 1999. As a result of this fossil asset sale, and a statutory change (Senate Bill 24 in 1999), ComEd is required to spend at least $2 billion during 1999-2004 on transmission and distribution (T&D) facilities outside of Chicago and to contribute $250 million for environmental and clean coal initiatives. ComEd reports that as of December 31, 2000, it has spent $1,618 million of the $2 billion it committed to spent on T&D facilities outside of Chicago.

- **Improved sales:** Total kWh sales have increased in each of the last four years, primarily reflecting continued economic growth in ComEd's service territory, warmer than normal weather, and increased sales to wholesale customers. Total kWh sales in 2000 increased 17% over 1999.

- **Excess earnings report:** On March 1, 2001, each electric utility filed a report pursuant to PUA § 16-111(e) providing information on average earnings for 1999 and 2000. The earnings are compared to an allowed benchmark specified in the 1997 Revisions, with any excess amount to be refunded to customers. The benchmark for ComEd for 1999-2000 is 12.83%. ComEd reported a two-year averaged earned return on common equity of 12.14% for 1999-2000; therefore no refunds were required

- **Customer switching and the competitive transition charge (CTC):** As of December 31, 2000, 9,533 of ComEd's approximately 330,000 non-residential customers had switched to delivery services. These customers consumed 12.5 million mega-watt hours in 2000. ComEd reported it lost revenues of $323.8 million in 2000 as a result of the customers switching to delivery services. The revenue loss was more than offset by the $151.7 million in CTC revenue that ComEd collected from delivery service customers, and by $208 million in off-system sales from the power and energy that was freed-up because the customers switched to delivery services. As of April 30, 2001, 11,999 of ComEd's non-residential customers had switched to delivery services.

- **Elimination of the UFAC:** As a result of ComEd's elimination of the UFAC, customers received refunds for net charges in 1997 totaling $43 million in 1998. The fuel adjustment clause allowed actual fuel costs to be passed on to customers, subject to a subsequent review for accuracy and prudence. Without a UFAC, ComEd was allowed to recover a fixed level of fuel cost per kWh through rates established in January 1995. Without a UFAC, ComEd benefits if actual fuel costs are lower than the level recovered through rates charged customers, and the opposite is true if actual fuel costs are higher than the level recovered through rates charged customers.

- **Discontinuance of Statement of Financial Accounting Standards (SFAS) 71:** SFAS 71 provides guidance on regulatory accounting practices for regulated utilities. The enactment of P.A. 90-561 deregulated the price for electric generation in Illinois. The 1997 Revisions and market-based pricing for generation do not provide utilities with the assurance that the cost of their generation assets will be recovered. Consequently, ComEd discontinued use of SFAS 71 practices for the generation portion of its business. A charge of $810 million to 1997 earnings represented the write-off of the non-recoverable portion of the generation assets.

- **Employees:** ComEd's staffing level declined in 2000 from 14,245 on December 31, 1999 to 13,624 on December 31, 2000. Approximately 35% of the 621 reduction in employees is a result of Unicom's merger with PECO. As of January 1, 2001, ComEd's employee level further declined to approximately 8,000 as a result of the transfer of its nuclear plants to Exelon Generation. The rates established in ComEd's last rate case in 1994 are based on an employee level of 18,656. Since that time ComEd has reduced its workforce by nearly 60%. The primary reasons for the reductions in employee levels are the sale of its fossil generating plants, the transfer of its nuclear generating plants and the merger with PECO.

- **System outages during the 1999 summer:** ComEd experienced a net increase in O&M expenses which generally resulted from higher expenditures associated with the evaluation, restoration, replacement and maintenance of portions of the company's distribution system (and, to a lesser extent, its transmission system) following the outages during the summer of 1999.

- **Zion nuclear generating station (Zion):** In January 1998, ComEd announced plans to shut down Zion. The retirement of this generation station reduced 1997 earnings by approximately $500 million.

- **Securitization**: Subsequent to the ICC's July 21, 1998, approval, ComEd issued on December 16, 1998, $3.4 billion of Transitional Funding Trust Notes at an average interest rate of 5.57%, through trusts established as "Special Purpose Entities." The notes carry various maturity dates from March 2000 through December 2008.

Illinois Power

Illinois Power's electric operating revenue, including interchange (wholesale) sales, decreased 33% from $1,781 million in 1998 to $1,192 million in 2000. Electric operating revenue excluding interchange sales remained constant over that same period. The reduction in interchange sales is due to the transfer of IP's fossil plants to an unregulated affiliate in October 1999 and the sale of Clinton to AmerGen in December 1999. Net income in 2000 was $135 million compared to net income of $113 million in 1999 and net losses of $1.5 billion and $44 million in 1998 and 1997 respectively. The increase in net income in 2000 was due to lower operating expenses, depreciation and taxes as a result of the transfer of the fossil plants and the sale of Clinton. The increase in 1999 net income is primarily due to lower purchased power costs and benefits associated with bringing the Clinton Power Station on-line in May 1999. The loss in 1998 was primarily due to the impairment of Clinton and higher purchased power costs. The loss in 1997 was primarily due to the discontinued application of SFAS 71 for Illinois Power's generating assets.

The significant items or events that affected Illinois Power's financial results for the years 1997 through 2000 included:

- **Mandatory residential rate reduction:** Illinois Power was required to reduce residential rates by 15% effective August 1, 1998. As a result of this rate reduction, Illinois Power's residential customers have realized savings of approximately $186 million through December 31, 2000. Illinois Power is required to reduce residential rates an additional 5% effective May 1, 2002.

- **Discontinuance of SFAS 71:** The enactment of P.A. 90-561 deregulated the price for electric generation in Illinois. The 1997 Revisions and market-based pricing for generation will not provide assurance that the cost of generation assets will be recovered. As a result, Illinois Power discontinued the application of SFAS 71 for the generating segment of its business. In December 1997, Illinois Power wrote off generating assets of $195 million (net of income taxes).

- **The Clinton Nuclear Power Station**: In September 1996, Illinois Power shut down its Clinton Power Station due to a leak in a recirculation pump seal. Clinton was not returned to service until May 27, 1999. In 1998, Illinois Power hired a Pennsylvania utility, PECO Energy Company, to manage the operation of the Clinton station. In December 1998, Illinois Power's Board of Directors decided to exit the nuclear generating business. This decision resulted in an impairment of the value of Clinton and related assets. Prior to the impairment, Clinton's net book value was $2.618 billion. SFAS 121 (Accounting for the Impairment of Long-Lived Assets and for Assets to Be Disposed Of) requires that assets to be disposed must be stated at the lower of their carrying value or their fair market value. Illinois Power estimated the fair market value of Clinton to be zero. Therefore, Illinois Power was required under SFAS 121 to write the carrying value of Clinton down to zero. The write-off of $1.524 billion (net of income taxes) resulted in a deficit in retained earnings of $1.566 billion.

- **Quasi-reorganization:** Coincident with recording the impairment loss for Clinton in December 1998, Illinois Power also implemented a quasi-reorganization. A quasi-reorganization is an accounting procedure that eliminates an accumulated deficit in retained earnings and permits a company to proceed on much the same basis as if it had been legally reorganized. A quasi-reorganization involves restating a company's assets and liabilities to their fair values, with the net amount of these adjustments added or deducted from the deficit. Any remaining deficit balance in retained earnings is then eliminated by a transfer from the common stock equity account to give the company a "fresh start." Illinois Power concluded that its fossil generating assets had a fair market value of $2.867 billion compared to a net book value of $632 million. This resulted in a write-up of $2.235 billion which was recognized as a offset to the deficit in retained earnings. After the revaluation of other assets and liabilities to their fair market value and the adoption of accounting pronouncements, the remaining accumulated deficit in retained earnings of $238.7 million was eliminated by a transfer from common stock equity.

- **Purchased Power costs:** Purchased power costs were $217.9 million in 1997, $735.2 million in 1998 and $421.1 million in 1999. The $517.3 million increase in purchased power costs in 1998 resulted from the Clinton outage and the unprecedented summer spike in wholesale energy prices. The decrease in 1999 purchased power costs was due in part to the benefits associated with bringing Clinton on-line in May 1999.

- **Sale of the Clinton Nuclear Power Station:** In April 1999, Illinois Power entered into an interim agreement with AmerGen Energy Company for the sale of Clinton. On September 1, 1997, British Energy and PECO Energy Company announced the formation of a joint venture, AmerGen Energy Company, LLC (AmerGen). British Energy is located in Edinburgh, Lothian, United Kingdom and PECO Energy Company is located in Philadelphia, Pennsylvania. Each company has a 50% ownership of AmerGen. The purpose of the joint venture is to pursue opportunities to acquire and operate nuclear generating plants in the United States. The sale was executed on December 15, 1999. AmerGen paid Illinois Power $12.4 million for the plant and property and AmerGen assumed responsibility for operating and ultimately decommissioning the plant. Illinois Power agreed to transfer the decommissioning trust funds in the amount of $98.5 million to AmerGen, and to make an additional payment of $113.4 million to the trust funds. Additionally, Illinois Power must make five annual payments of approximately $5 million to the trust funds. The sale of Clinton was contingent on Illinois Power signing an agreement to purchase 75% of the output of the plant over a five-year period at fixed prices that exceed current and projected wholesale prices. As a result, Illinois Power accrued $145 million for the estimated premium that they will pay for the power over the life of the agreement.

- **Transfer of Fossil Generating Plants:** On October 1, 1999, Illinois Power transferred its fossil generating plants and related assets to Illinova, Illinois Power's parent company, in exchange for an unsecured note in the amount of $2.8 billion. Illinova subsequently transferred the same assets to Illinova Power Marketing, Inc. (subsequently renamed Dynegy Midwest Generation), a wholly-owned unregulated subsidiary. The note between Illinois Power and Illinova matures in September 2009 and has an annual interest rate of 7.5%.

- **Securitization:** In December 1998, Transitional Funding Trust Notes of $864 million were issued, which represent 25% of Illinois Power's total capitalization at December 31, 1996. This debt is secured by a portion of the company's future revenue stream. Illinois Power used these funds to refund $646.5 million of debt, and to repurchase $15.2 million in preferred stock and $49.3 million in common stock.

- **UFAC elimination:** Illinois Power eliminated the clause on March 7, 1998 retroactive to January 1, 1997.

- **Merger:** Illinova, the parent company of Illinois Power, and Dynegy completed their merger on February 1, 2000.

- **Employee levels:** Illinois Power's staffing level of 2,035 on December 31, 2000 was down approximately 45% from the 3,655 employees at year-end 1997, down approximately 49% from the 3,965 employee level at year-end 1998 and down approximately 15% from the 2,397 employee level at year-end 1999. The reduction in employees is primarily due to the sale of the Clinton Nuclear Power Station, the transfer of its fossil generating plants to an affiliate, and the merger with Dynegy.

- **Excess earnings report:** On March 1, 2001, each electric utility filed a report pursuant to PUA § 16-111(e) providing information on average earnings for 1999 and 2000. The earnings are compared to an allowed benchmark specified in the 1997 Revisions, with any excess amount to be refunded. Illinois Power reported a two-year averaged earned return on common equity of 10.39% for 1999-2000, which was below the benchmark defined in the law. No refunds were required.

- **Customer switching and the CTC:** As of December 31, 2000, 380 of IP's approximately 78,000 non-residential customers had switched to delivery services. Illinois Power reported that its lost revenues of $29.7 million in 2000 as a result of the customers switching to delivery services. The lost revenue was partial offset by $5.2 million in CTC revenue collected from those customers. As of April 30, 2001, 877 of IP's non-residential customers had switched to delivery services.

AmerenCIPS

The company's electric operating revenue decreased $78 million from $795 million in 1999 to $717 million in 2000. The decrease is primarily due to a decline in interchange sales as a result of the transfer of its generating plants to an unregulated affiliate and cooler weather in 2000, compared to 1999. The decrease was partially offset by an increase in retail sales primarily from a new contract with a large industrial customer. Net income in 2000 was $79 million compared to net income of $54 million in 1999, $80 million in 1998 and $39 million in 1997. The increase in net income in 2000 was primarily due to reduced operating expenses as a result of the transfer of the generating plant to an affiliate during 2000. The difference in net income in 1999 as compared to 1998 is primarily due to higher fuel and purchased power costs (reflecting higher sales and coal contract termination costs). These categories alone more than offset the 1999 increase in revenues (reflecting higher sales mainly due to a 37% increase in interchange sales with other utilities). Net income in 1998 was favorably impacted by warm summer weather and economic growth and lower fuel costs attributable to joint dispatch efforts resulting from the merger with Union Electric. Net income in 1997 was negatively impacted by reduced electricity sales and a write-off of generation-related regulatory assets and liabilities due to the discontinued application of SFAS 71 for AmerenCIPS' generating assets.

The significant items or events that impacted AmerenCIPS' financial results for the years 1997 through 2000 included:

- **Mandatory residential rate reduction:** AmerenCIPS was required to reduce its residential rates by 5% on August 1, 1998. As a result of this mandatory rate reduction, AmerenCIPS's residential customers have realized cumulative savings of $27 million through December 31, 2000. The company was also subject to a rate reduction of up to 5% on October 1, 2000; however, a rate reduction was not required since its residential rates were already below the Midwest average. The company may be required to further reduce its residential rates by up to 5% on October 1, 2002, if its rates exceed the Midwest average at that time.

- **Discontinuance of SFAS 71:** The enactment of P.A. 90-561 deregulated the price for electric generation in Illinois. The 1997 Revisions and market-based pricing for generation will not provide assurance that the cost of generation assets will be recovered. As a result, AmerenCIPS discontinued the application of SFAS 71 for the generating segment of its business.

- **Transfer of generating facilities:** In July 1999, the company filed notice of its intent to transfer all of its generating facilities to an unregulated affiliate. The transfer was completed in May 2000. As part of the plant transfer, 750 employees, or approximately 45% of the company's workforce, were also transferred to the affiliate.

- **Customer switching and the CTC:** As of December 31, 2000, 786 of AmerenCIPS' approximately 49,000 non-residential customers had switched to delivery services. AmerenCIPS collected $1.5 million in transition charges in 2000. As of April 30, 2001, 878 of AmerenCIPS' non-residential customers had switched to delivery services.

- **UFAC elimination:** AmerenCIPS eliminated its fuel adjustment clause effective April 1, 1998, and placed a fuel component in base rates charged to customers based on an average of prior periods.

- **Excess earnings report:** On March 1, 2001, each electric utility filed a report pursuant to PUA § 16-111(e) providing information on average earnings for 1999 and 2000. The earnings are compared to an allowed benchmark specified in the 1997 Revisions, with any excess amount to be refunded. AmerenCIPS reported a two-year averaged earned return on common equity of 11. 45% for 1999-2000, which was below the benchmark defined in the law. No refunds were required.

Central Illinois Light Company

Central Illinois Light Company's (CILCO's) net income in 2000 was $48 million compared to $19 million in 1999, $44 million in 1998 and $53 million in 1997. The increase in CILCO's 2000 earnings was primarily due to reduced operations and maintenance expense associated with the company's early retirement programs. The 61% decrease in 1999 earnings was primarily due to costs associated with two early retirement programs. The decline in 1998 earnings was due, in part, to increased power plant maintenance expense and repairs to the electric distribution system resulting from severe storm damage in June 1998. Retail kWh sales increased 1%, 2% and 6% respectively in 2000, 1999 and 1998.

The significant items or events that impacted CILCO's financial results for the years 1997 through 2000 included:

- **Mandatory residential rate reduction:** CILCO was required to reduce residential rates by 2% on August 1, 1998, and by an additional 2% effective October 1, 2000. As a result of the mandatory rate reductions, CILCO's residential customers have realized cumulative savings of approximately $6 million through December 31, 2000. CILCO is required to further reduce residential rates by 1% on October 1, 2002.

- **Voluntary Early Retirement Program:** In 1999, CILCO offered early retirement packages to two groups of its employees. Of the 273 employees eligible for the early retirement programs, 227 employees accepted the offer. In November of 2000, CILCO offered another voluntary early retirement program to eligible employees in its electric and gas transmission and distribution areas not included in the 1999 early retirement programs. A total of 41 of the 102 eligible employees retired effective December 31, 2000.

- **UFAC:** On July 31, 2000, CILCO filed pursuant to PUA § 9-220(d) to eliminate its UFAC. On March 14, 2001, the Commission dismissed CILCO's petition due to the company's failure to provide accurate and complete information regarding its fuel costs.[5] The ICC anticipates that CILCO will file a new petition to eliminate its fuel adjustment during 2001.

- **Discontinuance of SFAS 71:** The enactment of P.A. 90-561 deregulated the price for electric generation in Illinois. As a result, CILCO discontinued the application of SFAS 71 for the generating segment of its business.

- **Merger:** In November 1998, CILCORP, the parent of CILCO, announced that the AES Corporation offered to buy 100% of CILCORP's outstanding common stock for $65 a share. AES completed its acquisition of CILCORP on October 18, 1999.

- **Excess earnings report:** On March 1, 2001, each electric utility filed a report pursuant to PUA § 16-111(e) providing information on average earnings for 1999 and 2000. The earnings are compared to an allowed benchmark specified in the 1997 Revisions, with any excess amount to be refunded. CILCO reported a two-year averaged earned return on common equity of 8.99% for 1999-2000, which was below the benchmark defined in the law. No refunds were required.

[5] Pages 6-8 of the Commission's order in Docket 00-0579 entered on March 14, 2001.

- **Customer switching and the CTC:** As of April 30, 2001, none of CILCO's approximately 22,000 non-residential customers had switched suppliers. As a result, CILCO has not collected any transition charges. On March 9, 2000, CILCO filed a revised tariff with the Commission eliminating their transition charge effective March 17, 2000.

AmerenUE

AmerenUE is a combination electric and gas utility that predominantly serves retail customers in Missouri. In 2000, the company derived 95% of its total operating revenue from the sale of electric energy. Approximately 6% of UE's electric operating revenues comes from retail electric sales in Illinois. The company's net income in 2000 was $353 million as compared to $349 million, $320 million and $302 million in 1999, 1998 and 1997, respectively, while UE's Illinois electric operation's net income was $25 million in 2000, $22 million in 1999, $24 million in 1998 and $20 million in 1997.

The significant items or events that impacted AmerenUE's financial results for the years 1997 through 2000 included:

- **Mandatory residential rate reduction:** AmerenUE was required to reduce its residential rates by 5% on August 1, 1998. As a result of this mandatory rate reduction, AmerenUE's residential customers have realized cumulative savings of approximately $6 million through December 31, 2000. The company was also subject to a rate reduction of up to 5% on October 1, 2000; however, a rate reduction was not required since its residential rates were already below the Midwest average. The company may be required to further reduce its residential rates by up to 5% on October 1, 2002, if its rates exceed the Midwest average at that time.

- **UFAC:** AmerenUE eliminated its UFAC effective May 5, 1998, and placed a fuel component in base rates charged to customers based on an average of prior periods' UFAC rates.

- **Discontinuance of SFAS 71:** In December 1997, AmerenUE determined that it was necessary to write-off the generation-related regulatory assets and liabilities of its Illinois retail electric business. The write-off, net of income taxes, was $27 million.

- **Merger:** Ameren, a registered public utility holding company, was formed as a result of the merger of Union Electric Company and Central Illinois Public Service Company. The merger was completed on December 31, 1997.

- **Excess earnings report:** On March 1, 2001, each electric utility filed a report pursuant to PUA § 16-111(e) providing information on average earnings for 1999 and 2000. The earnings are compared to an allowed benchmark specified in the 1997 Revisions, with any excess amount to be refunded. AmerenUE reported a two-year averaged earned return on common equity of 13. 97% for 1999-2000. AmerenUE exceeded the earnings benchmark defined in PUA § 16-111(e) of 12.83% by 1.14%. As a result, AmerenUE must refund excess earnings of approximately $1.9 million to customers during 2001. AmerenUE also refunded excess earnings of approximately $2.3 million to customers during 2000 for 1998-1999.

- **Customer switching and the CTC:** As of December 31, 2000, 18 of AmerenUE's approximately 8,500 non-residential customers had switched to delivery services. AmerenUE has not collected any transition charges. As of April 30, 2001, 1 additional non-residential customer has switched to delivery services.

MidAmerican Energy
MidAmerican Energy (MEC) is a combination electric and gas utility that predominantly serves retail customers in Iowa. The company's net income in 2000 was $165 million as compared to $127 million, $116 million and $126 million in 1999, 1998 and 1997, respectively. MEC's net income from Illinois electric operations was $22 million in 2000 as compared to $21 million, $20 million and $23 million, respectively, in 1999, 1998 and 1997.

The significant items or events that impacted MEC's financial results for the years 1997 through 2000 included:

- **Mandatory residential rate reduction:** The 1997 Revisions required MEC to reduce residential rates by 15%. However, MEC was allowed to offset the mandated rate reduction to reflect the $13.1 million and $2.4 million rate reductions ordered by the Commission in October and December 1996, respectively. As a result, MEC reduced residential rates by approximately 1.7% effective August 1, 1998. As a result of this mandatory rate reduction, MEC's residential customers have realized cumulative savings of approximately $3 million through December 31, 2000. The law does not require MEC to further reduce residential rates.

- **Mergers:** On March 12, 1999, MEC's parent, MidAmerican Energy Holdings, was acquired by CalEnergy Company. Upon completion of this transaction, CalEnergy was renamed MidAmerican Energy Holdings. In October 1999, a group of private investors, including Berkshire Hathaway, Walter Scott Jr., and David Sokol, agreed to acquire MidAmerican Energy Holdings. The transaction was completed on March 14, 2000.

- **Discontinuance of SFAS 71:** In December 1997, the company determined that it was necessary to write-off the generation-related regulatory assets and liabilities of its Illinois retail electric business.

- **UFAC:** MEC has not elected to eliminate its Uniform Fuel Adjustment Clause.

- **Excess earnings report:** On March 1, 2001, each electric utility filed a report pursuant to PUA § 16-111(e) providing information on average earnings for 1999 and2000. The earnings are compared to an allowed benchmark specified in the 1997 Revisions, with any excess amount to be refunded. MEC reported a two-year averaged earned return on common equity of 11. 21% for 1999-2000, which was below the benchmark defined in the 1997 Revisions. No refunds were required.

- **Customer switching and the competitive transition charge (CTC):** As of December 31, 2000, only 218 of MEC's approximately 9,400 non-residential customers had switched to delivery services. MEC reported lost revenue of $1.6 million in 2000 as a result of the customers switching to delivery services. MEC has elected not to impose transition charges. As of June 30, 2000, 134 customers opted to switch to delivery services. As of April 30, 2001, no additional non-residential customers have switched to delivery services.

Interstate Power Company

Interstate Power (Interstate), a subsidiary of Alliant Energy, is a combination electric and gas utility company that serves retail customers in Iowa, Minnesota and Illinois. In 2000, Interstate realized 6% of its electric revenues from Illinois. Interstate's net income from Illinois electric operations was $2.8 million in 2000 as compared to $2.6 million, $1.5 million and $4.7 million, respectively, in 1999, 1998 and 1997.

The significant items or events that impacted Interstate's financial results for the years 1997 through 2000 included:

- **Mandatory residential rate reduction:** The 1997 Revisions exempted Interstate from the mandatory rate reductions because Interstate serves fewer than 12,500 Illinois retail electric customers.

- **Mergers:** Alliant Energy, a registered public utility holding company, was formed as a result of the merger involving Interstate, Wisconsin Power and Light (WPL), the parent of South Beloit Water Gas and Electric, and IES Industries (IES). The merger was completed in April 1998. Interstate, WPL and IES are first-tier subsidiaries of Alliant Energy. In 2000, Alliant announced its intentions to merge Interstate and IES into one company.

- **UFAC:** Interstate has not elected to eliminate its Uniform Fuel Adjustment Clause.

- **SFAS 71:** Interstate has not discontinued the application of SFAS 71.

- **Excess earnings report:** On March 1, 2001, each electric utility filed a report pursuant to PUA § 16-111(e) providing information on average earnings for 1999 and 2000. The earnings are compared to an allowed benchmark specified in the 1997 Revisions, with any excess amount to be refunded. Interstate reported a two-year averaged earned return on common equity of 11.27% for 1999-2000, which was below the benchmark defined in the 1997 Revisions. No refunds were required.

- **Customer switching and (CTC):** As of April 30, 2001, none of IPC's approximately 2,200 Illinois non-residential customers had switched suppliers. IPC has elected not to impose transition charges.

Mt. Carmel

Mt. Carmel's net income in 2000 was $0.7 million compared to $0.8 million in 1999, $0.7 million in 1998 and $0.5 million in 1997. The increase in net income in 1998 is primarily due to electric and gas rate increases that were effective in April 1998.

The significant items that impacted Mt. Carmel's financial results for the years 1997 through 2000 included:

- **Mandatory residential rate reduction:** The 1997 Revisions exempted Mt. Carmel from the mandatory rate reductions because it serves fewer than 12,500 Illinois retail electric customers.

- **UFAC:** Mt. Carmel has not elected to eliminate its Uniform Fuel Adjustment Clause.

- **SFAS 71:** Mt. Carmel does not own any generating assets and has not discontinued the application of SFAS 71.

- **Excess earnings report:** On March 1, 2001, each electric utility filed a report pursuant to PUA § 16-111(e) providing information on average earnings for 1999 and 2000. The earnings are compared to an allowed benchmark specified in the 1997 Revisions, with any excess amount to be refunded. Mt. Carmel reported a two-year averaged earned return on common equity of 9.43% for 1999-2000, which was below the benchmark defined in the 1997 Revisions. No refunds were required.

- **Customer switching and the CTC:** As of April 30, 2001, none of Mt. Carmel's approximately 1,000 non-residential customers had switched suppliers. Mt. Carmel has elected not to impose transition charges.

South Beloit Water Gas and Electric

South Beloit Water Gas and Electric (South Beloit) is a wholly owned subsidiary of Wisconsin Power & Light. South Beloit is a combination electric, gas and water company. The company's net income in 2000 was $2.4 million as compared to $2.0 million, $2.5 million and $1.7 million in 1999, 1998 and 1997, respectively.

The significant items or events that impacted South Beloit's financial results for the years 1997 through 2000 included:

- **Mandatory residential rate reduction:** The 1997 Revisions exempted South Beloit from the mandatory rate reductions because South Beloit serves fewer than 12,500 Illinois retail electric customers.

- **Merger:** Alliant Energy, a registered public utility holding company, was formed as a result of the merger involving Interstate Power, Wisconsin Power and Light, and IES Industries that was completed in April 1998. South Beloit is a second-tier subsidiary of Alliant Energy.

- **UFAC:** South Beloit has not elected to eliminate its Uniform Fuel Adjustment Clause.

- **SFAS 71:** South Beloit does not own any generating assets, and has not discontinued the application of SFAS 71.

- **Excess earnings report:** On March 1, 2001, each electric utility filed a report pursuant to PUA § 16-111(e) providing information on average earnings for 1999 and 2000. The earnings are compared to an allowed benchmark specified in the 1997 Revisions, with any excess amount to be refunded. South Beloit reported a two-year averaged earned return on common equity of 6.38% for 1999-2000, which was below the benchmark defined in the 1997 Revisions. No refunds were required.

- **Customer switching and the competitive transition charge (CTC):** As of April 30, 2001, none of the company's approximately 900 non-residential customers had switched to delivery services. South Beloit has elected not to impose transition charges.

Part 2: Summary of Utilities' Responses to PUA § 16-130 Requirements

I. Number of Customers Switching Suppliers and Transition Charge Recovery

PUA § 16-130(a)(1) requires utilities to provide information concerning the extent to which eligible[6] retail customers switch suppliers and the amount of transition charges paid to the incumbent utilities by those customers. PUA § 16-130(a)(1) states:

> **§ 16-130(a)(1): Data on each customer class of the electric utility in which delivery services have been elected including:**
>
> **(A) number of retail customers in each class that have elected delivery service;**
>
> **(B) kilowatt hours consumed by the customers described in subparagraph (A);**
>
> **(C) revenue loss experienced by the utility as a result of customers electing delivery services or market-based prices as compared to continued service under otherwise applicable tariffed rates;**
>
> **(D) total amount of funds collected from each customer class pursuant to the transition charges authorized in Section 16-108;**
>
> **(E) Such other information as the Commission may by rule require.**

Table 1: Customer Switching and Transition Charge Data

Utility	Number of Customers Switching Suppliers	Amount of Usage Switched to Delivery Services (kWh million)		Revenue Lost Resulting from Customers Switching to Delivery Services ($ million)		Transition Charge Revenue Collected ($ million)	
	Cumulative[7]	2000	Cumulative[7]	2000	Cumulative[7]	2000	Cumulative[7]
AmerenCIPS	786	479.70	479.70	3.5	3.5	1.5	1.5
AmerenUE	18	3.50	3.50	0.1	0.1	0.0	0.0
CILCO	0	0.00	0.00	0.0	0.0	0.0	0.0
ComEd	9,533	12,499.60	12,867.70	323.8	339.9	151.7	155.3
Illinois Power	380	1,481.10	1,481.12	29.7	29.7	5.2	5.2
Interstate Power	0	0.00	0.00	0.0	0.0	0.0	0.0
MidAmerican	218	37.60	43.60	1.6	1.6	0.0	0.0
Mt. Carmel	0	0.00	0.00	0.0	0.0	0.0	0.0
S. Beloit	0	0.00	0.00	0.0	0.0	0.0	0.0
Total	10,935	14,501.50	14,875.62	358.7	369.8	158.4	162.0

[6] PUA §16-104 establishes a phase-in plan for eligibility to choose an alternative electric supplier. The first group of non-residential customers, including certain very large customers, large multi-location customers, and other nonresidential customers selected by lottery, became eligible for choice on October 1, 1999. As of December 31, 2000, all non-residential customers were eligible for choice.

[7] "Cumulative" refers to the period from October 1, 1999 through December 31, 2000.

As of April 30, 2001, a total of 13,991 non-residential customers have switched to delivery services.

II. Utility Cost Mitigation Activities

PUA § 16-130(a)(2) requires utilities to provide information concerning their efforts to mitigate and reduce costs:

> **§ 16-130(a)(2): A description of any steps taken by the electric utility to mitigate and reduce its costs, including both a detailed description of steps taken during the preceding calendar year and a summary of steps taken since the effective date of this amendatory Act of 1997, and including, to the extent practicable, quantification of the costs mitigated or reduced by specific actions taken by the electric utility.**

The utilities furnished the ICC with the following information concerning each utility's major cost mitigation activities:

AmerenCIPS/AmerenUE

- On December 31, 1997, Central Illinois Public Service Company merged with Union Electric Company and formed Ameren. The merger is anticipated to produce savings of $759 million over a ten-year period.
- In 1998, Ameren announced a hiring freeze and targeted separation plan that resulted in the elimination of 400 positions.
- Over the past two years, AmerenCIPS and AmerenUE have reached agreements with all of their major collective bargaining units.

Central Illinois Light Company

- In November of 2000, CILCO offered a voluntary early retirement program to eligible employees in its electric and gas transmission and distribution areas not previously included in the two 1999 early retirement programs. A total of 41 of the 102 eligible employees retired effective December 31, 2000.

ComEd

- Unicom (ComEd's parent company) merged with PECO Energy Company, a Pennsylvania-based utility, on October 20, 2000. Under the terms of the merger agreement, Unicom was required to repurchase $1 billion of its common stock prior to consummation of the merger. In January 2000, ComEd repurchased 26.3 million shares of its common stock from Unicom resulting in an after tax gain of $113 million. In the first quarter of 2000, ComEd repurchased an additional 4 million shares of its common stock from Unicom. ComEd eliminated 214 positions as a result of the merger.
- The nuclear generating plants aggregate capacity factor improved for the second year in a row. The aggregate capacity factor was 94.5% and 89.4% in 2000 and 1999 respectively. Seven of ComEd's ten nuclear units were refueled in 2000 with an average outage time of less than 19 days compared to the U.S. average of 39 days in 2000. Nuclear generation increased to 79.4 million MWhs in 2000, an increase of 7.8% over 1999. Nuclear fuel costs decreased from $5.16 per MWh in 1999 to $4.76 in 2000.

- The sale of fossil generating plants reduced plant-in-service, O&M expenses, taxes, fuel expenditures, and depreciation charges. The O&M reductions include workforce reductions of 1,614 employees, or approximately 10%, during 1999. These savings will be offset to some extent by costs associated with the power purchase agreements that were entered into with the purchaser of the plants.
- Taking advantage of the securitization provisions of PUA Article XVIII, the company realized savings from refinancing debt and equity redemptions with lower cost asset-backed securities. ComEd estimates interest savings to be $50 million annually.

Illinois Power

- Taking advantage of the securitization provisions of PUA Article XVIII, the company realized savings from refinancing debt and equity redemptions with lower cost asset-backed securities. Annual interest and dividend savings are approximately $8.5 million.
- Formally requested property tax adjustments on service area buildings and substation sites in Madison and LaSalle counties. Estimated annual savings is $36,000.
- Consolidated the Danville and Champaign service areas in June 2000. Savings resulting from the consolidation of the two service areas totaled $464,000 in 2000.
- Entered into a new Alliance construction agreement with L.E. Myers, which resulted in cost reductions of $300,000.
- Eliminated numerous contractor-provided supervisory positions in the Forestry Department resulting in savings of $350,000.
- Improved materials handling processes and consolidation of four field materials storerooms reduced costs by $1,092,000.

Interstate Power/South Beloit

- Interstate Power and South Beloit both note in their reports that the formation of Alliant Energy in April 1998 is anticipated to result in cost savings resulting from operating efficiencies.

MidAmerican Energy Company

- MEC cites several projects that were undertaken to improve the reliability and lower the costs of generation at MEC's generating facilities.
- Exercised a lease-end purchase option on their mainframe computer reducing annual operating costs by $840,000.
- Eliminated the Special Projects Director office saving $170,000 annually.
- Eliminated their use of the Gartner Group information and consulting services, saving $100,000 per year.

Mt. Carmel

- In 2000, Mt. Carmel began the process of researching replacement power sources for its current wholesale purchased power agreement that is due to expire in 2001.

III. Depreciation Rate Changes, Mergers, UFAC Elimination and Rate Reductions

PUA § 16-130(a)(3) seeks information about actions that electric utilities have taken pursuant to various sections of the PUA that were amended during the 1997 legislative process.

> **§ 16-130(a)(3): A description of actions taken under Sections 5-104, 7-204, 9-220, and 16-111 of this Act. This information shall include but not be limited to:**
>
> **(A) a description of the actions taken;**
> **(B) the effective date of the action;**
> **(C) the annual savings or additional charges realized by customers from actions taken, by customer class and total for each year;**
> **(D) the accumulated impact on customers by customer class and total; and**
> **(E) a summary of the method used to quantify the impact on customers.**

A brief description of these PUA sections follows:

- § 5-104 addresses depreciation.
- § 7-204 describes the regulatory approvals needed for certain utility reorganizations and mergers.
- § 9-220 provides various options for utilities that seek to eliminate the UFAC.
- § 16-111, addresses electric rates during the "mandatory transition period" (1997-2004). This section mandates the residential rate reductions, permits electric utilities to implement a merger, except for a merger with another jurisdictional utility, without obtaining any approval from the Commission, and describes, among many other things, the Commission approvals needed for sales of generation, transmission, or distribution assets that exceed certain maximum allowable caps.

Actions taken by the utilities during 2000 included:

- **PUA § 5-104: Depreciation Accounts**

Effective with the completion of merger of Unicom and PECO on October 20, 2000, ComEd changed the site-specific depreciation rates of its nuclear generating stations.

- **PUA § 7-204: Reorganizations**

MidAmerican Energy: On October 24, 1999, MidAmerican Energy Holdings entered into a definitive agreement whereby an investor group comprised of Berkshire Hathaway, Walter Scott Jr., and David Sokol would acquire all of the outstanding common stock of MidAmerican Energy Holdings for $35.05 per share. On November 15, 1999, MidAmerican Energy filed a petition pursuant to PUA § 7-204 seeking ICC approval of the gas portion of the proposed merger. The ICC approved the merger on January 12, 2000, and the transaction was completed on March 14, 2000.

Illinois Power: On June 14, 1999, Illinova, the parent company of Illinois Power, and Texas-based Dynegy, Inc. announced the execution of an agreement to merge. On August 13, 1999 Illinois Power filed a petition with the ICC under PUA § 7-204 seeking approval of the gas portion of the proposed merger. The ICC approved the merger on November 23, 1999. The companies completed the merger on February 1, 2000. The new company, Dynegy, is incorporated in Illinois and headquartered in Texas. Illinois Power is a subsidiary of the new company and continues to be headquartered in Decatur.

- **PUA § 9-220: Rate Changes Based on Changes in Fuel Costs**

  ComEd, Illinois Power and the Ameren companies have used the provisions of PUA § 9-220 to eliminate the use of the UFAC.

  Ameren: AmerenCIPS and AmerenUE eliminated their UFACs effective April 1, 1998 and May 5, 1998, respectively, pursuant to PUA § 9-220(b) of the PUA. The average fuel cost for the prior two years was placed into base rates for both companies.

  ComEd: On December 16, 1997, ComEd eliminated its UFAC retroactive to January 1, 1997, pursuant to PUA § 9-220(e). The elimination of its UFAC required the company to refund $43 million to its customers in 1998.

  Illinois Power: Illinois Power eliminated its UFAC pursuant to PUA § 9-220(f) in 1998 retroactive to January 1, 1997. PUA § 9-220(f) specifies that the fuel component of base rates be adjusted to recover 91% of the average fuel costs for the most recent 2 years during which the Commission has entered final orders in annual reconciliation proceedings under PUA § 9-220(a).

  CILCO: On July 31, 2000, CILCO filed a petition seeking to eliminate their UFAC pursuant to PUA § 9-220(d). On March 14, 2001, the ICC dismissed CILCO's petition due to the company's failure to provide accurate and complete information regarding its fuel costs.

- **PUA § 16-111: Rates and restructuring transactions during mandatory transition period.**
  - **PUA § 16-111(b):** On August 1, 1998, the six largest electric utilities in Illinois reduced their residential base rates as required by the language of PUA § 16-111(b). ComEd and Illinois Power reduced rates by 15%, AmerenCIPS and AmerenUE reduced rates by 5%, CILCO reduced rates by 2%, and MEC reduced rates by 1.7%. Companies with fewer than 12,500 Illinois customers (Interstate Power, South Beloit and Mt. Carmel) were not required to reduce residential rates.

On October 1, 2000, CILCO reduced its residential rates by an additional 2%. AmerenCIPS and AmerenUE were also subject to residential rate reduction in October 2000; however, since their rates were already below the Midwest utility average, they were not required to reduce their rates.

ComEd and Illinois Power are required to reduce their residential rates an additional 5% on October 1, 2001 and October 1, 2002 respectively. CILCO will further reduce its residential rates by 1% on October 1, 2002. AmerenCIPS and AmerenUE would be required to reduce their rates on October 1, 2002 if their average residential rates exceed the average residential rate of the group of Midwest utilities specified in the Subsection.

Table 2, below, shows the approximate savings residential customers realized in 2000 as a result of the rate reductions mandated by § 16-111(b).

Table 2: Savings from Residential Rate Reductions

Utility	Cumulative Base Rate Reduction (%)	Residential Customer Savings from Rate Reductions 2000 ($ millions)	Residential Customer Savings from Rate Reductions Cumulative since 8/1/1998 ($ millions)
AmerenCIPS	5.0	$11.0	$27.3
AmerenUE	5.0	3.0	6.0
CILCO	4.0	2.7	5.9
ComEd	15.0	395.0	955.0
Illinois Power	15.0	76.0	185.9
MidAmerican	1.7	0.9	2.7
Total		$488.6	$1,182.8

- **PUA § 16-111(e):** Pursuant to this section of the law, on or before March 31st of each year 2000 through 2005, every electric utility must file a report with the ICC showing the utility's earned rate of return on common equity for the preceding calendar year and the average for the preceding 2 calendar years. The 2-year average is compared to a benchmark calculated in accordance with this subsection, and any excess earnings are refunded to customers beginning the following year.

The benchmark is not the same for all companies in all years for which reports are required. PUA §16-111(e) provides instructions for calculating the benchmark. All electric utilities have filed their year 2001 reports with the ICC showing 1999 and 2000 earnings information.

The 1999-2000 excess earnings benchmark for ComEd, AmerenCIPS and AmerenUE is 12.83. The benchmark for all of the other electric utilities except CILCO is 11.83%. CILCO's benchmark is 15.83%. Table 3 shows the results of the companies' reports. The ICC is reviewing the reports and verifying the accuracy of the utilities' numbers.

Table 3: Earned Rate of Return on Common Equity Report

	Reported ROE*			
Company Name	**1999**	**2000**	**2-yr. Average 1999 & 2000**	**Benchmark****
AmerenCIPS	9.11%	13.78%	11.45%	12.83%
AmerenUE	14.00%	13.95%	13.97%	12.83%
CILCO	4.91%	13.06%	8.99%	15.83%
ComEd	11.56%	12.71%	12.14%	12.83%
Illinois Power	9.73%	11.04%	10.39%	11.83%
Interstate Power	11.66%	10.88%	11.27%	11.83%
MidAmerican	10.70%	11.74%	11.22%	11.83%
Mt. Carmel	10.77%	8.09%	9.43%	11.83%
South Beloit	5.98%	6.78%	6.38%	11.83%

*ROE is net income applicable to common stock divided by common equity.
**Three components are added to comprise the benchmark:

a) the applicable 2-year average T-bond yield (5.58% and 6.08% for the 12 months ended 9/30/99 and 9/30/00 respectively).
b) 1999 - 4% for all utilities except CILCO which is 8%.
2000 - 9% for CILCO, 7% for ComEd, AmerenCIPS, and AmerenUE, and 5% for all other utilities.
c) 1.5% adder

AmerenUE is the only utility that reported excess earnings, both for 1998-1999 and for 1999-2000. In April 2000, AmerenUE began refunding excess earnings for 1998-1999 of $2.3 million to its Illinois customers. AmerenUE began refunding $1.35 million in excess earning for 1999-2000 in April 2001. If AmerenUE not had the option of increasing their excess earnings benchmark by 2 percentage points as provided in SB 24, it would have been required to refund approximately $2.5 million in excess earnings for 1999-2000.

- **PUA § 16-111(f):** This section permits electric utilities to file revised tariffs reducing the price of any tariffed service offered to customers. The reduction is effective seven days after filing. No Illinois utility has reduced the price of any tariffed service pursuant to PUA § 16-111(f).

- **PUA § 16-111(g):** This section identifies transactions or activities for electric utilities that, with some exceptions, do not require ICC approval. In general, the transactions or activities contained within this section fall into four categories: 1) reorganization/merger activities; 2) retirement of generating plants; 3) sale, assignment, lease or transfer of assets, including related transactions; and 4) the use of an accelerated cost recovery method. The following activities occurred in 2000:

AmerenCIPS:

- In July 1999, AmerenCIPS filed a notice to transfer its generating plants to an unregulated affiliate, Genco. AmerenCIPS also entered into a power purchase agreement with Genco through the end of 2004 to buy back the output of the plants. The transfer was completed in May, 2000.

ComEd:

- In November 1999, ComEd filed a notice of merger regarding the proposed merger between ComEd's parent company, Unicom, and PECO Energy Company. A new holding company named Exelon was formed as a result of the merger. Unicom and PECO completed their merger on October 20, 2000.
- In May 2000, ComEd sold an office building located in Chicago, Illinois for $100. The sale provided ComEd with a charitable contribution of approximately $4.8 million and an expected $1.9 million reduction in taxes in 2000.
- In May 2000, ComEd filed notice of its intent to transfer all of its nuclear generating assets and various related assets and liabilities to Exelon Generation, an unregulated affiliate, in exchange for the common stock of ComEd held by Exelon. As part of the transfer, ComEd entered into a purchased power agreement to obtain all of its power supply from Exelon Generation through 2004, with an option to purchase the output of the nuclear plants in 2005 and 2006. The transfer was completed on January 12, 2001. ComEd is also in the process of transferring its nuclear decommissioning trusts to Exelon Generation in exchange for ComEd common stock worth approximately $1.6 billion.
- In November 2000, ComEd transferred to Exelon Corporation, its parent, the principal amount of $850 million of a promissory note from Unicom Investment, Inc., bearing a total principal amount of approximately $2,209 million. The promissory note was received in connection with the sale of ComEd's fossil plants to Edison Mission Energy in December 1999. In consideration for the transfer, Exelon remitted to ComEd approximately 19,940,000 shares of ComEd common stock.
- In November 2000, ComEd filed notice of its intent to sell and assign to ABB Energy Capital, L.L.C. the right to receive 10 annual payments of $1,442,144 from the Department of Energy in return for a cash payment of $10,183,875 less legal fees. The transaction was completed in January 2001.

Illinois Power:

- In November 1999, Illinois Power filed a notice of a merger between Illinova, IP's parent company, and Dynegy. The merger was completed on February 1, 2000.

MidAmerican Energy:

- In November 1999, MidAmerican Energy (MEC) filed notice of the acquisition of MEC's parent company, MidAmerican Energy Holdings by a group of private investors including Berkshire Hathaway, Walter Scott Jr., and David Sokol. The transaction was completed in March 2000.

IV. Use of Transitional Funding Instruments (Securitization)

PUA § 16-130(a)(4) requires utilities to provide information about the use of transitional funding instruments (TFIs). TFIs are special debt securities that, due to a complex legal framework designed to reduce their risk, carry relatively low interest rates. Specifically, the Customer Choice Law permits TFI investors to directly charge electric utility customers a rate sufficient to meet the debt servicing obligations on the TFIs. This charge, known as the instrument funding charge (IFC), is non-bypassable. However, the utility is required to provide its customers with an equal, offsetting credit to their bills so that customers see no increase in their bills due to the IFC.

> **§ 16-130(a)(4): A summary of the electric utility's use of transitional funding instruments, including a description of the electric utility's use of the proceeds of any transitional funding instruments it has issued in accordance with Article XVIII of this Act.**

Only ComEd and Illinois Power have sought and received permission from the ICC to issue transitional funding instruments. The Commission Order in Docket No. 98-0319 authorized ComEd to issue up to $3.4 billion of TFIs. The Commission Order in Docket No. 98-0488 authorized Illinois Power to issue up to $864 million of TFIs.

In the 1999 non-residential delivery service tariff proceedings before the Commission, ComEd's and IP's overall rates of return were determined with TFIs included in their capital structures. Consistent with the ICC's Interim Order in Docket No. 98-0454, the TFI balances reflected in each utility's capital structure were adjusted for changes that were determinable and reasonably certain to occur subsequent to the selected test year but prior to January 1, 2001. Accordingly, in Docket No. 99-0117, ComEd's approved capital structure included $2.7 billion of TFIs and resulted in an allowed overall cost of capital of 8.84%. Without the TFIs, ComEd's overall cost of capital would have been higher. In Docket Nos. 99-0120 and 99-0134, IP's approved capital structure included $818.4 million of TFIs and resulted in an allowed overall cost of capital of 8.93%. Without the TFIs, IP's overall cost of capital would have been higher.

ComEd: In July 1998, the ICC approved the issuance by ComEd of $6.8 billion in TFIs. In December 1998, ComEd issued one-half of the approved amount, or $3.4 billion, of Transitional Funding Trust Notes at an average interest rate of 5.57%, through trusts established as "Special Purpose Entities." The notes carry various maturity dates from March 2000 through December 2008.

Illinois Power: In December 1998, Illinois Power issued $864 million of Transitional Funding Trust Notes at an average interest rate of 5.41%, which represents 25% of IP's total capitalization at December 31, 1996. The notes carry various maturity dates from 2000 through 2008. Illinois Power used these funds to retire debt and equity securities.

Table 4, below, shows how ComEd and Illinois Power have used the proceeds from the issuance of TFIs.

Table 4: Use of Proceeds From Transitional Funding Instruments

Expenditure Category	ComEd		Illinois Power	
	Principal ($ Million)	Premium ($ Million)	Principal ($ Million)	Premium ($ Million)
Short Term Debt	$ 500.0	$ 0.0	$ 0.0	$ 0.0
Long Term Debt	1,101.4	35.8	745.9	44.4
Preference Stock	606.8	12.4	15.2	(1.6)
Common Stock	1,063.3		49.1	.2
Equity Investment in ComEd Funding, LLC	17.0			
Other expenses and fees	22.8		10.8	
Total	$3,311.3	$48.2	$821.0	$43.0

V. Revenue and Consumption Statistics

PUA § 16-130(a)(5) requires utilities to provide revenue and kWh sales information that isolates the annual impact of the mandatory residential rate reductions and mitigation factors on a "base year" level of revenue while assuming everything else remains constant. The base year is calendar year 1996, and revenue is calculated as 1996 kWh used during the year by customer class multiplied by the customer class' 1996 revenue per kWh, exclusive of add-on taxes.

Information presented pursuant to PUA § 16-130(a)(5) and PUA § 16-130(a)(6) is shown in Table 5.

> **§ 16-130(a)(5): Kilowatt-hours consumed in the twelve months ending December 31, 1996 (which kilowatt-hours are hereby referred to as "base year sales") by customer class multiplied by the revenue per kilowatt hour, adjusted to remove charges added to customers bills pursuant to Sections 9-221 and 9-222 of this Act, during the twelve months ending December 31, 1996, adjusted for the reductions required by subsection (b) of Section 16-111 and the mitigation factors contained in Section 16-102. This amount shall be stated for: (i) each calendar year preceding the year in which a report is required to be**

submitted pursuant to subsection (b); and (ii) as a cumulative total of all calendar years beginning with 1998 and ending with the calendar year preceding the year in which a report is required to be submitted pursuant to subsection (b).

VI. Adjusted Revenue and Consumption Statistics

PUA § 16-130(a)(6) modifies the information provided pursuant to PUA § 16-130(a)(5) by using base year (1996) revenue per kWh multiplied by actual kWh sales in each year for which the information is required. The impact of the mandatory rate reductions and mitigation factors is subtracted in each year, as required by PUA § 16-130(a)(5).

> **§ 16-130(a)(6): Calculations identical to those required by subparagraph (5) except that base year sales shall be adjusted for growth in the electric utility's service territory, in addition to the other adjustments specified by the first sentence of sub-paragraph (5).**

The Commission has construed PUA § 16-130 (a)(5)-(a)(6) as requiring certain information for the 1998 and subsequent years to allow a comparison of two scenarios. The first scenario is based on the assumption that the usage of electricity is constant, at 1996 levels, for each class of customers throughout the period during which PUA § 16-130 requires reports. The second scenario is based on actual usage of electricity (1) that the utility delivers, either as part of a bundled sale, as a PUA § 16-110 purchase, or as a delivery of third-party furnished electricity, or (2) that the electric utility does not deliver but as to which it is entitled to collect transition charges. The Commission's understanding is that PUA § 16-130(a)(5) and (a)(6) are intended to allow for a comparison of (1) the electric utility revenue diminution resulting from the residential rate reductions and mitigation factors, calculated through time as it would have been viewed as of the enactment of Article XVI, based upon static usage at 1996 levels (PUA § 16-130(a)(5)), with (2) the revenue effects calculated on the basis of all assumptions held constant except usage, with usage adjusted to show actual kilowatt-hours delivered (or otherwise forming the basis for transition charge collections) during the relevant years (PUA § 16-130(a)(6)).

Most of the utilities did not interpret PUA § 16-130(5) and (a)(6) in the manner just described. Therefore, the Commission requested that the utilities provide information enabling the Commission to calculate the revenue figures consistent with the Commission's interpretation of PUA § 16-130(a)(5) and (a)(6). A summary of this information is shown in Table 5.

Table 5: Base Year 1996 Revenue Data and Subsequent Years' Revenue Data

Utility	Year	Revenue per kWh per year applied to base year 1996 kWh ($ Thousands)	Revenue per kWh per year applied to each year's kWh ($ Thousands)
AmerenCIPS	1996	509,255	509,255
	1997	509,255	507,529
	1998	504,650	525,484
	1999	473,678	486,186
	2000	462,376	515,690
AmerenUE	1996	149,865	149,865
	1997	149,865	152,241
	1988	148,961	154,158
	1999	141,751	138,980
	2000	130,248	133,275
CILCO	1996	287,179	287,179
	1997	287,179	288,878
	1998	286,292	303,929
	1999	281,777	303,740
	2000	257,012	282,765
ComEd	1996	5,793,293	5,793,293
	1997	5,793,293	5,782,823
	1998	5,641,116	5,902,056
	1999	5,428,430	5,734,173
	2000	5,368,399	5,775,320
Illinois Power	1996	1,134,604	1,134,604
	1997	1,134,604	1,134,500
	1998	1,105,552	1,136,801
	1999	1,058,387	1,102,877
	2000	1,026,045	1,104,367
Interstate Power	1996	15,755	15,755
	1997	15,755	15,844
	1998	15,755	15,848
	1999	15,597	15,824
	2000	14,708	15,063
MidAmerican	1996	105,786	105,786
	1997	105,786	108,872
	1998	105,388	114,014
	1999	104,144	107,162
	2000	101,275	100,671
Mt. Carmel	1996	10,183	10,183
	1997	10,183	8,258
	1998	10,183	8,136
	1999	11,915	9,483
	2000	10,058	8,033
South Beloit	1996	8,288	8,288
	1997	8,288	8,567
	1998	8,288	8,766
	1999	8,234	8,669
	2000	7,899	8,344

Note: The information in this table was calculated by the Commission Staff based on information provided by the utilities upon request of the Commission Staff.**Note: The information in this table was calculated by the Commission Staff based on information provided by the utilities upon request of the Commission Staff.**

VII: Utility Revenue and Income

PUA § 16-130(a)(7) requires utilities to provide total revenue and net income amounts to the ICC, as reported on the utility's Form 1 report to the Federal Energy Regulatory Commission (FERC):

> **§ 16-130(a)(7): The electric utility's total revenue and net income for each calendar year beginning with 1997 through the calendar year preceding the year in which a report is required to be submitted pursuant to subsection (b) as reported in the electric utility's Form 1 report to the Federal Energy Regulatory Commission.**

Total revenue and net income figures, as provided to the ICC by each electric utility, are summarized in Table 6. The information does not represent each utility's total revenues and net income derived solely from the utility's in-state electric operations because of other operations, out-of-state operations, and non-operating costs. For example, the figures for AmerenCIPS, CILCO, Illinois Power, and Mt. Carmel represent those utilities' gas and electric operations and non-operating costs; the figures for AmerenUE, Interstate Power, and MidAmerican include amounts earned from electric and gas operations, amounts earned in other states, and non-operating costs; the figures for South Beloit include amounts earned from electric, gas, and water operations and non-operating costs; and the net income figure for ComEd includes non-operating costs.

Table 7 shows revenue and net operating income figures that represent amounts derived only from each utility's in-state electric operations. The information provided in Table 7 is not specifically required by PUA § 16-130(a)(7) but is based on reports filed by the utilities with the Commission.

Table 6: Utility Revenue & Net Income, 1997-2000 [per pages 114 & 117 of the FERC Form #1]

(Thousands)

	2000		1999		1998		1997	
Utility	**Revenue**	**Net Income**	**Revenue**	**Net Income**	**Revenue**	**Net Income**	**Revenue**	**Net Income**
AmerenCIPS	$ 872,966	$ 79,363	$ 876,459	$ 53,981	$ 847,424	$ 80,146	$ 852,076	$ 38,620
AmerenUE	2,516,704	353,011	2,367,468	349,252	2,382,071	320,070	2,287,333	301,655
CILCO	650,854	47,777	562,524	19,250	541,092	44,235	557,359	53,467
ComEd	6,970,729	731,685	6,766,892	622,728	7,135,879	594,206	7,073,087	-773,773
Illinois Power	1,585,619	134,935	1,903,197	113,089	2,069,146	-1,355,916*	1,773,841	-44,173
Interstate Power	358,993	28,703	343,232	30,846	356,128	18,757	331,847	29,168
MidAmerican	1,868,800	165,456	1,663,299	127,331	1,599,558	115,594	1,662,606	125,941
Mt. Carmel	12,786	539	12,083	677	12,219	337	11,881	108
South Beloit	17,822	2,423	16,389	2,003	16,353	2,543	15,191	1,737

[This Table shows total company Revenue and total Net Income, not Illinois or electric only.]

* Illinois Power subsequently revised downward its reported net loss for 1998 from -$1,355,916,000 to -$1,552,434,790.

Table 7: Utility Revenue and Net Income From Illinois Electric Operations, 1997-2000 [per page 4 Form 21 ILCC
(Thousands)

	2000		1999		1998		1997	
Utility	**Revenue**	**Net Income**	**Revenue**	**Net Income**	**Revenue**	**Net Income**	**Revenue**	**Net Income**
AmerenCIPS	$ 696,195	$ 76,336	$ 743,812	$ 77,208	$ 721,918	$ 114,983	$ 700,517	$ 95,488
AmerenUE	152,744	24,823	144,648	22,216	158,780	24,340	149,089	20,322
CILCO	398,973	57,022	372,892	36,384	360,173	56,168	338,298	54,177
ComEd	6,970,729	1,072,798	6,766,892	1,207,856	7,135,880	1,045,950	7,073,087	913,006
Illinois Power	1,192,083	146,145	1,598,828	241,486	1,781,388	594,841	1,419,942	250,156
Interstate Power	18,510	2,830	18,597	2,605	17,383	1,467	19,819	4,674
MidAmerican	124,413	22,039	123,890	21,525	125,343	20,470	124,815	22,923
Mt. Carmel	9,723	653	9,637	814	9,906	707	9,227	499
South Beloit	11,696	2,038	10,917	1,316	10,639	1,147	9,635	1,917

[1]In its 1999 Form 21 ILCC, 1998 Net Income was revised downward by Illinois Power from $594,841,000.
Source: "Revenue" represents "Total Electric Operating Revenues", "Net Income" represents "Net Electric Utility Operating Income," as reported in Form 21 ILCC.

VIII. Asset Sales to Non-Affiliates

PUA § 16-130(a)(8) requires utilities to provide the ICC with information about the sales of generating plants to non-affiliated third parties.

The information required by PUA § 6-130(a)(8) is stated as follows:

> **§ 16-130(a)(8): Any consideration in excess of the net book cost as of the effective date of this amendatory Act of 1997 received by the electric utility during the year from a sale made subsequent to the effective date of this amendatory Act of 1997 to a non-affiliated third party of any generating plant that was owned by the electric utility on the effective date of this amendatory Act of 1997.**

ComEd states that the sale of its generating assets to Edison Mission Energy in the manner described above was actually accomplished by Unicom Investments, Inc., and therefore, the sale is not reportable under this Section.

IX. Plant Sales or Transfers to Affiliates

PUA § 16-130(a)(9) requires utilities to provide information about sales of transfers of generating plants to affiliated interests. The information required by PUA § 16-130(a)(9) is stated as follows:

> **§ 16-130(a)(9): Any consideration received by the electric utility from sales or transfers during the year to an affiliated interest of generating plant, or other plant that represents an investment of $25,000,000 or more in terms of total depreciated original cost, which generating or other plant were owned by the electric utility prior to the effective date of this amendatory Act of 1997.**

On December 15, 2000, ComEd closed on the transfer of its fossil-fueled generating assets. The transaction was accomplished by first transferring the assets to Unicom Investment, Inc. (UII), an affiliate. UII then immediately transferred the assets to Edison Mission Energy, a wholly-owned subsidiary of Edison International. UII paid ComEd $4.813 billion in the form of a demand note for $2.35 billion and interest-bearing term notes for the balance. UII received $4.813 billion in cash from Edison Mission Energy.

On May 1, 2000, AmerenCIPS closed on the transfer of all of its electric generating assets and associated liabilities to Genco. AmerenCIPS formed Genco by transferring all of its generating assets to Genco for 100% of the Genco stock and a promissory note for the $543 million book value of the assets. AmerenCIPS then transferred its Genco stock to Ameren Corp. Ameren Corp. transferred the Genco stock to an Intermediate Holding Company (IHC) (newly formed for this transaction), which held certain interests in new gas-fired generation facilities and was certified by FERC as an Exempt Wholesale Generator (EWG). IHC transferred its interests in the gas-fired generation facilities to Genco thereby losing its EWG status. Genco was certified as an EWG. AmerenCIPS did not recognize a gain on the transaction as the assets were transferred at book value.

X. Plant Sales or Transfers by Affiliates to Non-Affiliates

PUA § 16-130(a)(10) requires each utility to provide information about the sales of generating plants by the utility's affiliates to third parties. The information required by PUA § 16-130(a)(10) is stated as follows:

> **§ 16-130(a)(10): Any consideration received by an affiliated interest of an electric utility from sales or transfers during the year to a non-affiliated third party of generating plant, but only if: (i) the electric utility had previously sold or transferred such plant to the affiliated interest subsequent to the effective date of this amendatory Act of 1997; (ii) the affiliated interest sells or transfers such plant to a non-affiliated third party prior to December 31, 2006; and (iii) the affiliated interest receives consideration for the sale or transfer of such plant to the non-affiliated third party in an amount greater than the cost or price at which such plant was sold or transferred to the affiliated interest by the electric utility.**

The sale of ComEd's fossil-fueled generating assets is not reportable under this section because the affiliated interest did not receive consideration in an amount greater than the amount it paid to ComEd.

XI. ComEd PUA § 16-111(k) Commitment

Senate Bill 24 (PA 91-50), in response to ComEd's 1999 fossil generating asset sale, created PUA § 16-111(k) which reads:

> **If an electric utility is selling or transferring to a single buyer 5 or more generating plants located in this State with a total net dependable capacity of**

5000 megawatts or more pursuant to subsection (g) of this Section and has obtained a sale price or consideration that exceeds 200% of the book value of such plants, the electric utility must provide to the governor, the President of the Illinois Senate, the Minority Leader of the Illinois Senate, the Speaker of the Illinois House of Representatives, and the Minority Leader of the Illinois House of Representatives no later than 15 days after filing its notice under subsection (g) of this Section or 5 days after the date on which this subsection (k) becomes law, whichever is later, a written commitment in which such electric utility agrees to expend $2 billion outside the corporate limits of any municipality with 1,000,000 or more inhabitants within such electric utility's service area, over a 6-year period beginning with the calendar year in which the notice is filed, on projects, programs, and improvements within its service area relating to transmission and distribution including, without limitation, infrastructure expansion, repair and replacement, capital investments, operations and maintenance, and vegetation management.

SB 24 concurrently revised the reporting requirements of PUA § 16-130 by adding an eleventh item:

§ 16-130(a)(11): A summary account of those expenditures made for projects, programs and improvements relating to transmission and distribution including, without limitation, infrastructure expansion, repair and replacement, capital investments, operations and maintenance, and vegetation management, pursuant to a written commitment made under subsection (k) of Section 16-111.

ComEd provided the following information in response to PUA § 16-130(a)(11). The total cumulative expenditures represent 81% of its commitment to spend $2 billion over a 6-year period.

ComEd's Transmission and Distribution Expenditures Outside Chicago ($ millions)		
	(2000)	Cumulative (1999-2000)
Operation and Maintenance	$309	$ 567
Capital Installation	$639	$1,051
Total T&D Expenditures Outside Chicago	$948	$1,618